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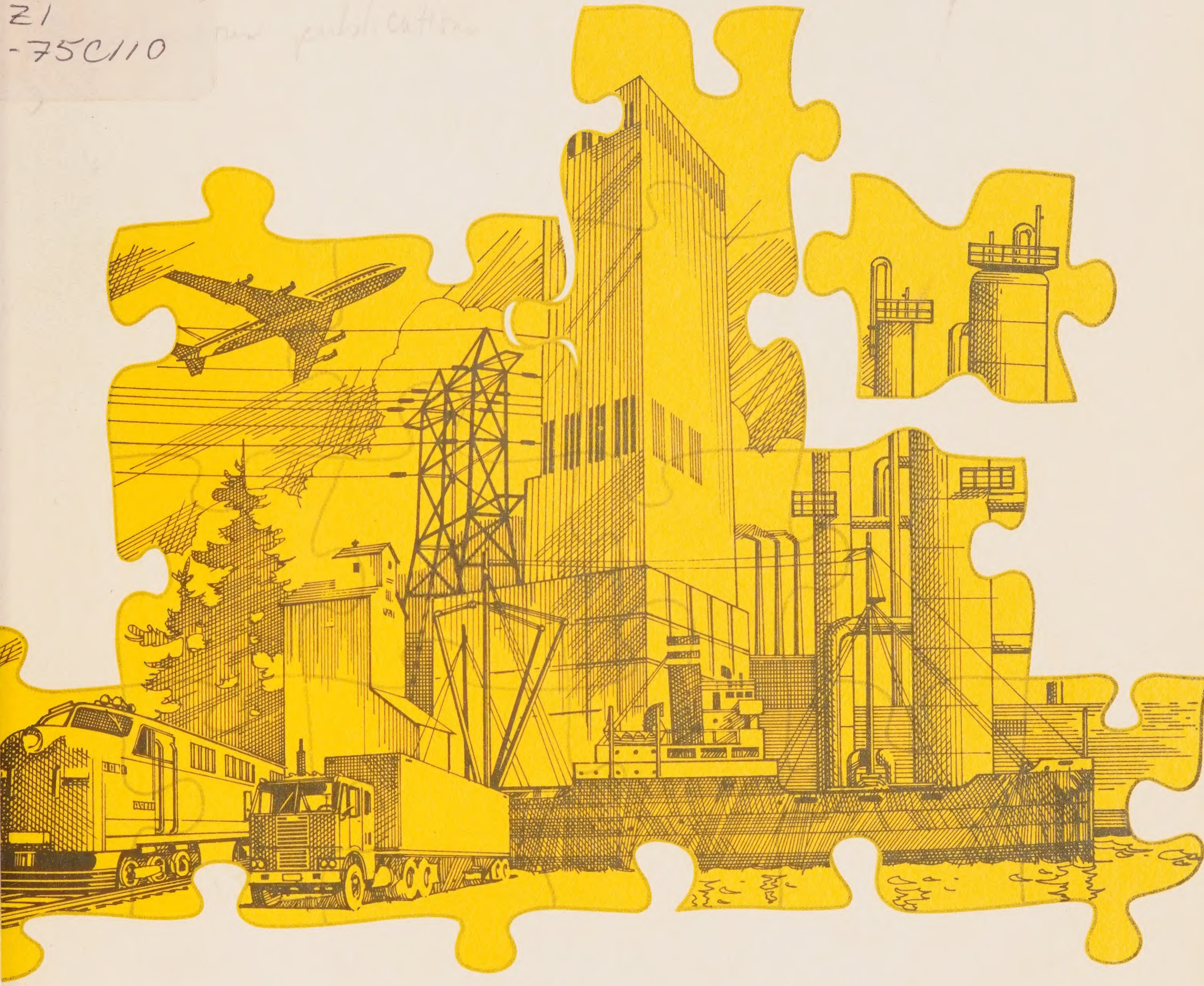

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Power Corporation of Canada, Limited

A Corporation Background Report

by

C.J. Hodgson, Richardson Inc.

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FOREWORD

In April 1975 the Royal Commission on Corporate Concentration was appointed to "inquire into, report upon, and make recommendations concerning:

(a) the nature and role of major concentrations of corporate power in Canada;

(b) the economic and social implications for the public interest of such concentrations; and

(c) whether safeguards exist or may be required to protect the public interest in the presence of such concentrations."

To gather informed opinion, the Commission invited briefs from interested persons and organizations and held hearings across Canada beginning in November 1975. In addition, the Commission organized a number of research projects relevant to its inquiry. One such project resulted in a series of studies, of which this is one, dealing with the growth of large and diversified corporations in Canada. The series was coordinated by Charles B. Loewen of Loewen, Ondaatje, McCutcheon & Co. Ltd., an investment firm in Toronto.

The report on Power Corporation of Canada, Limited is one of 12 studies in the series. It was prepared by a research team from C.J. Hodgson, Richardson Inc., supervised by Mr. F.R. Whittall, President, and edited by Mr. F.R. Boardman, C.F.A., Vice President. The sections on the parent company, Canada Steamships and Laurentide Financial, were written by Mr. J.E. Douville, a Vice President whose functions included analyzing the finance company industry and certain special situations of which Power Corporation was one. The sections on Consolidated-Bathurst and Dominion Glass were written by Mr. N. Majendie, who directed the institutional sales and research department and personally analyzed the forest product industry. The sections on Imperial Life, Investors Group, Great-West Life and Montreal Trust were written by Mr. Norman Heimlich, Vice President and Chief Economist. Messrs. Douville and Majendie are now respectively President and Vice President of Institutional Sales & Research of Réné-T Leclerc, Inc.

The Commission is publishing this and other background studies in the public interest. However, the analyses presented and conclusions reached in each study are those of the author, and do not necessarily reflect the views of the Commission or its staff.

PART ONE

POWER CORPORATION OF CANADA, LIMITED

PART TWO

THE ASSOCIATED COMPANIES

Canada Steamship Lines Limited
Consolidated-Bathurst Limited
Dominion Glass Company Limited
Laurentide Financial Corporation
The Imperial Life Assurance Company of Canada
The Investors Group
Great-West Life Assurance Company
Montreal Trust Company

PART ONE

POWER CORPORATION OF CANADA, LIMITED

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POWER CORPORATION OF CANADA, LIMITED

Introduction

Power Corporation of Canada, Limited (PCC) is a holding and management company with major investments in a conglomerate network of some 70 subsidiaries and affiliates. On the Financial Post's 1975 list of Canada's top 200 industrials Power ranked 37th on the basis of assets ($579 million), and 36th on the basis of its $32 million net income (exclusive of extraordinary items).

But the true importance of a holding company such as Power cannot be measured by the same yardstick as other industrials. Even though the concept of control is too ill-defined to lend itself to precise arithmetic, there is no doubt that Power Corporation controls assets worth several times those listed under its own name. It is certainly one of Canada's half dozen largest diversified holding companies, though Canadian Pacific Investments, Brascan and the Canada Development Corporation are larger. On the basis of assets (but not net income), Power actually ranks behind Investors Group, a financial holding company which PCC controls.

Power Corporation's investments are concentrated in four industry groupings: 1) transportation, 2) pulp, paper and packaging, 3) finance, and 4) communications (newspapers). The mainstay of the conglomerate structure is a group of 11 companies (see Table III on page 46), most of which rank among Canada's largest in their respective fields. Three of them, Consolidated-Bathurst, Investors Group and Montreal Trust, surpass Power in size of assets.

In 1968 Power Corporation acquired Trans-Canada Corporation Fund (TCCF), an investment company controlled by Paul Desmarais. Although Power took over TCCF, Desmarais gained control of Power and became its Chief Executive Officer and Chairman of the Board. He now controls Power through Gelco Enterprises which holds 53% of the voting equity and which is in turn 100% controlled by Nordex Ltd. Desmarais owns 75% of the equity of Nordex; the remaining 25% belongs to the estate of Jean Parisien, Power's Senior Deputy Chairman until his death in 1976.

Under Desmarais, Power has sought to obtain outright control of investments rather than settle for a minority position, as used to be the case under Desmarais' predecessor, Peter N. Thomson. Another aspect of Power Corporation's investment strategy is its active participation in the management of subsidiaries and affiliates through board memberships as well as close ties with chief executive officers.

Power Corporation's most aggressive and controversial takeover bid to date was its attempt, in April 1975, to gain control of Argus Corporation, another large investment holding company. While Power did eventually acquire 52.9% of the equity of Argus, the bid gave Power only 25.3% of the voting equity and was therefore unsuccessful in the context of PCC's investment policy. Ravelston Corporation Ltd., a private company, retained voting control.

Nevertheless, the attempted takeover led to "concern about the possibility of one large diversified group being acquired by another" and resulted in the establishment of the Royal Commission on Corporate Concentration under whose auspices this study is being published.

. . . .

The study will examine the evolution of Power Corporation from its beginning as a company which invested mainly in power utilities, and will focus on various aspects of its investment policy as exemplified by its actual takeovers and acquisitions. These takeovers will not be analysed from the broad viewpoint of society at large, but in the more restricted context of their impact on the shareholders of Power Corporation and of its affiliates and subsidiaries.

The first section of the study examines the three stages of Power Corporation's development up to acquisition of control by Paul Desmarais. The second section deals with Power as it is today. It includes a brief section on each of the main subsidiaries and affiliates with an assessment of their present and potential value to the PCC shareholder. Also included is a section on the inter-relationship between Power Corporation and its holdings, other corporations, shareholders and society at large, and a section on the profit and investment performance of Power and its affiliates and subsidiaries.

SECTION I

THE HISTORY OF POWER CORPORATION OF CANADA, LIMITED

1925-1968

A. Under Its Founders: A.J. Nesbitt 1925-1956
P.A. Thomson

Incorporation

Power Corporation was incorporated under the Companies Act of Canada on April 18, 1925. From the beginning it was closely affiliated with the investment dealer firm Nesbitt, Thomson & Company Limited which acted as its fiscal agents. A.J. Nesbitt and P.A. Thomson, the principals of the firm which bore their name, served successively as presidents of Power Corporation from its incorporation until 1956.

The following were some of the reasons for forming the company:

1. Utility holding companies were a fashionable and successful investment medium in the United States. If the pattern could be repeated in Canada such a venture might prove highly profitable. (Power Corporation stock, initially issued at $5.00, sold as high as $139 in 1929.)

2. According to rumours, a United States holding company, Electric Bond and Share Company, was contemplating the acquisition of some Canadian utilities. There was a nationalistic desire to retain control within Canada.

3. Public utilities are prolific issuers of securities in an expanding economy. It was in the interest of investment dealers to establish close contact with them.

The initial $5,500,000 capitalization of Power Corporation divided as follows:

25,000 shares	6% First Preferred $100 par value	$2,500,000
50,000 shares	6% Non-Cumulative Participating Preferred $50 par value	2,500,000
100,000 shares	Common	500,000

The initial investments resulted in control of, or a major investment position in, seven power companies. About one-third of the assets were invested in miscellaneous marketable securities.

Management services offered by Power Corporation to utilities included general advice, help on rate schedules and help in attracting industry to the service areas. Its engineering and construction department specialized in electric utility work particularly for the companies associated with PCC. It shared offices and some administrative staff with Southern Canada Power until the latter merged with Shawinigan Water & Power in 1957. The engineering and construction department was spun off into a separate corporation at that time.

Growth: 1925-1930

From 1925 to 1930 Power Corporation grew rapidly. Its capitalization was increased by two issues of convertible debentures which yielded $15 million, an issue of 25,000 First Preferred Shares and an issue of 50,000 Participating Preferred Shares. These share issues sold for $2.5 million and $3 million respectively. In 1928, holders of common and participating preferred shares received rights to subscribe to 2 new common shares at $60 for every 3 shares held.

Immediately before this rights issue the participating preferred shares were given 10 votes per share instead of their original 1 vote per share. This change, which was not mentioned in the next annual report, was presumably designed to allow control of the company to remain in the hands of the founders even if they did not increase their investment through the exercise of rights. The exercise of control by such means was not an uncommon practice at that time. The participating preferred shares still have 10 votes per share today and allow Paul Desmarais to control the company with 53% of the votes but only 18.3% of the equity.

By June 1929 the capitalization was:

Convertible Debentures	$14,979,500
Preferred Stock (2 issues)	10,000,000
Common Equity	17,869,539

Survival: 1930-mid-1950's

With the advent of the Depression emphasis was switched from growth to survival. From 1930 until the mid-fifties, changes in Power Corporation were gradual and limited in number.

Dividends on both issues of preferred shares were paid regularly and some dividend was paid on the common stock in all years except 1933-36. A small portion of the outstanding debt was redeemed in most years.

After some changes in the period 1925-30, the list of subsidiaries and affiliated companies stabilized. Throughout the 1930's, 1940's and most of the 1950's, Power Corporation's principal holdings were:

- British Columbia Power Corporation, Limited
- Canada Northern Power Corporation Limited (Northeastern Ontario and Northwestern Quebec mining areas)
- East Kootenay Power Company Limited
- Winnipeg Electric Company
- Northern British Columbia Power Company, Limited
- Foreign Power Securities (an investment company owning securities of electric utilities in France)
- Southern Canada Power Company Limited (Quebec Eastern Townships).

After a write-down of $13 million in 1933, the book value of Power's investments remained around $27 million until 1945. Approximately two-thirds were in affiliated companies and one-third in other portfolio investments. The total market value of Power Corporation's investments fluctuated between $18 million and $28 million during this period.

After the war conditions improved but the controlling shareholders showed little interest in new ventures. The debt and the preferred shares were refinanced at lower interest rates and routine changes were made in the portfolio investments. Meanwhile the value of the holdings was carried up by the general rise in the stock market. Power Corporation's own stock moved from a low of $2 in 1941 to a high of $84 in 1957 when it finally regained the levels of 1927-30.

B. Under Peter Thomson: 1957-1968

P.A. Thomson died in October 1956, two years after his partner A.J. Nesbitt. By that time the Nesbitt and Thomson family interests had begun to diverge. Following his father's death A.D. Nesbitt took over the responsibilities of Nesbitt, Thomson & Company. Although he has been on the Board of Power Corporation since 1954 and was President from 1956-62, he has a relatively small share holding.

TABLE I

POWER CORPORATION OF CANADA, LIMITED

Investment Portfolio June 30, 1961

Quoted Investments at Market Value
Unquoted Investments at Book Cost

POWER & UTILITIES-33.10%	Common Stocks	Preferred & Class A Stocks	Bonds Debentures & Advances	Total	Percentage
British Columbia Power Corporation Limited	$ 7,820,000	$ -	$ --	$ 7,820,000	8.91
British Columbia Electric Company Limited	-	--	453,750	453,750	.52
British Newfoundland Corporation Limited	262,500	--	--	262,500	.30
*East Kootenay Power Company Limited	209,000	531,375	1,200,000	1,940,375	2.21
*Northern British Columbia Power Company Limited	1,457	-	2,500,000	2,501,457	2.85
*Northern Quebec Power Company Limited	4,188,558	1,000,000	-	5,188,558	5.91
The Shawinigan Water & Power Company	939,300	9,712,383	-	10,651,683	12.14
Miscellaneous	-	231,250	-	231,250	.26
OIL, GAS & PIPELINE-41.30%					
Canadian Oil Companies Limited	20,987,600	1,136,807	-	22,124,407	25.21
Greater Winnipeg Gas Company	4,678,518	-	360,640	5,039,158	5.74
International Utilities Corporation	1,754,800	-	-	1,754,800	2.00

Quebec Natural Gas Corporation	367,420	41,000	173,533	581,950	.66
Trans-Canada Pipe Lines Limited	4,312,000	-	2,065,181	6,377,181	7.27
Miscellaneous	-	190,350	182,500	372,850	.42
FINANCE-11.64%					
Canadian Power & Paper Securities Limited	478,626	-	-	478,626	.55
Capital Management Limited	49,000	-	954,270	1,003,270	1.14
*Imperial Investment Corporation Limited	391,450	2,571,016	691,600	3,654,066	4.16
The Royal Bank of Canada	1,312,155	-	-	4,312,155	4.91
Miscellaneous	768,160	-	-	768,160	.88
PULP & PAPER-7.54%					
Bathurst Power & Paper Company Limited	4,312,000	2,309,925	-	6,621,925	7.54
OTHER INVESTMENTS-6.42%					
Canadian Celanese Limited	1,173,850	-	-	1,173,850	1.34
*G.M. Gest Limited	749,157	50,000	500,000	1,299,157	1.48
*Power Corporation Realties (Ontario) Limited	100	-	874,900	875,000	1.00
355 St. James St. West Incorporated	300,762	-	-	300,762	.34
Mining	114,958	-	27,405	142,363	.16
Miscellaneous	1,047,489	414,681	384,979	1,847,149	2.10
TOTAL	$59,218,860	$18,188,787	$10,368,755	$87,776,402	100.00%
	67.47%	20.72%	11.81%		

* - Subsidiary Companies.

TABLE II

Consolidated Investment Portfolio
as at December 31, 1967

	Bonds, Debs. and Notes (par value)	Preferred Shares	Common Shares Number held	Common Shares % of out-standing	Valuation Quoted	Valuation Unquoted (note 2)
Chemicals-5.0%						
Chemcell Limited			1,000,000	7.5	$ 7,620,000	
Finance-7.2%						
*Capital Management Limited	1,603,972	895,000	10,363	86.3		$ 1,582,200
Laurentide Financial Corporation Ltd.	400,000	500,000	3,297,000(a)	13.9	1,084,050	4,013,966(a)
*Yorkshire Financial Corporation Ltd.			200,000	61.4		2,000,000
The Royal Bank of Canada			100,000	.3	1,562,000	
RoyWest Banking Corporation Ltd.			250,000	4.0		754,122
Manufacturing-16.6%						
Congoleum-Nairn Inc.			658,392	25.9	16,354,457	
Dominion Glass Company Ltd.		5,500	655,147	30.9	5,956,823	
*Inspiration Limited		65,000	1,674,556	52.2	2,947,012	
Oil and Gas-21.7%						
Canadian Industrial Gas & Oil Ltd.		165,376			1,714,949	
International Utilities Corporation			186,200	2.7	7,866,950	
Northern & Central Gas Corporation			2,000,000	15.3	23,500,000	
Pulp and Paper-20.2%						
Consolidated-Bathurst Limited		491,200	925,000	15.6	30,881,946(b)	

Real Estate-5.6%						
*Canadian Interurban Properties Ltd.			2,715,500	55.3	8,553,825	
Tourism and Hotels-6.1%						
Travelodge Australia Limited, Group of Companies(c)	4,000,000(US)					4,292,146
Bahamas-Caribbean Development Corp.	400,000	500,000	1,815,190	40.7	1,306,937	900,000
North American Recreation Industries Ltd.		165,000	110,000	50.0		2,750,000
Transportation-13.5%						
Canada Steamship Lines Limited		344,240	773,850	30.0	20,573,122	
Unclassified-4.1%						
Dominion Electric Protection Company			3,969	49.0		677,675
*Liverpool Plains Pastoral Company Pty. Limited	330,000(AUS)		506,000	91.6		616,127
*Power Mining Limited	438,061(AUS)		6,000	60.0		542,865
Quebec Telemedia Inc.	2,300,000		50,000	50.0		2,350,000
Other					658,320	1,407,357
					$130,580,391	$21,886,458
As per Balance Sheet: - Quoted Securities at Market - Unquoted (Note 2)						
Unconsolidated Subsidiary Companies					11,500,837	4,767,775
Other Companies					119,079,554	17,118,683
					$130,580,391	21,886,458

* Unconsolidated Subsidiary

Notes: (a) Includes 3,000,000 subordinated common shares and 500,000 subordinated $1.80 preferred shares valued on a basis related to the market price of the common shares.
(b) Includes the value of 285,000 warrants to purchase common shares at $40.00 per share.
(c) Formerly Motels of Australia Limited

P.A. Thomson's son, P.N. Thomson, on the other hand, inherited the largest single holding in Power Corporation. His share amounted to 45.1% of the votes and 12.8% of the equity in April 1968. Furthermore he had little interest in Nesbitt, Thomson & Company and wanted to run Power Corporation. Consequently the close links between the brokerage house and Power were somewhat looser during this period than they had been during the lifetime of the founders.

Under the younger Thomson the role of Power Corporation's senior professional manager assumed new importance. The position, which took on a variety of titles, was occupied by John W. Rook until he retired in 1962, then by Maurice Strong until he resigned to become Director General of Canada's External Aid program in September 1966 and finally by William I.M. Turner, Jr. These men left their mark on the company but without a controlling share of the equity they could not be as influential as Paul Desmarais was to become a few years later.

The combination of younger and professional management with the business opportunities available in the post-war environment resulted in Power Corporation becoming more active. Major investment changes, however, did not occur until 1962 when, within less than two years, the British Columbia Government nationalized the assets of B.C. Power, the Quebec Government nationalized the power companies in that province, and Shell Investments Ltd. made a successful offer to take over Canadian Oil Companies. The total proceeds, about $70 million, compare with a market value of $88 million for all Power Corporation's investments at June 1961.

None of these sales was voluntary. The power companies were taken over by legislative action. As for Canadian Oil Companies, Power Corporation held 26 per cent of the stock-- enough to exert effective control but not enough to block a determined takeover bid. Power Corporation opposed Shell's initial bid for Canadian Oil Companies and reluctantly accepted the second improved offer when it became clear that Shell would get over 50 per cent of the stock in any case.

The 1962 annual report commented: "In the light of the changing economic and political circumstances affecting investment in Canada it is likely that the most favorable opportunities for investment by the Corporation in the future will be outside of the public utility field".

By June 30, 1964, 82 per cent of the portfolio consisted of securities purchased since June 30, 1962. Tables I and II show the portfolio at June 1961 and at December 1967. A comparison reveals the changes that occurred during that period.

Investment Philosophy and Management Methods

The need to reinvest such a large proportion of the assets forced a re-evaluation of the purpose of Power Corporation and of its guiding philosophy. The following statement appeared in the 1965 and subsequent annual reports:

> OUR OBJECTIVE: To Invest Creatively in Canada's Future.
>
> To accomplish this objective the policy of Power Corporation of Canada, Limited is to:-
>
> 1) Make long-term equity investments in industries which have the potential for substantial growth and profitability.
> 2) Concentrate our holdings in a limited number of companies which are or can become leaders in their respective industries.
> 3) Develop and support competent, self-contained management in each company and assist that company to realize its full potential.
> 4) Encourage the development of improved management techniques and new technology, products and markets.
> 5) Invest primarily in Canada and in situations outside Canada which are related to Canadian interests and experience.

In the four years between June 1962 and June 1966 the number of companies held was reduced from 47 to 26; during the same period the number of holdings which accounted for 90 per cent of the assets dropped from 31 to 12.

Investments were purchased on the assumption that they would be held for the long term and that Power Corporation's position would be large enough to influence the Board of Directors. Whenever Power could not obtain a dominant position it tried to sell at a profit. Examples of such sales include McIntyre Porcupine, Congoleum-Nairn Inc. and a portion of the holding of Chemcell Limited.

While Power Corporation obtained outright control in most of the smaller investments it was content with a substantial but less than 50 per cent portion in its larger investments. The staff of the parent company was increased but remained small. Management of subsidiary companies enjoyed almost complete independence unless something went seriously wrong.

The Portfolio

Significant acquisitions in this period include*:

Laurentide Financial (see also page 31) In 1956 Power Corporation bought 7,829 Class B shares of Imperial Investments (later Laurentide Financial) at $50 each. These shares carried 98.6 per cent of the votes but represented only 5.5 per cent of the equity. Imperial agreed to pay Power a management fee based on the outstanding notes receivable. John Rook was responsible for the acquisition.

In 1963, Class A shares received one vote per share. Power Corporation purchased 3 million new subordinated common shares at $1.00 each and thereby ensured its continued control with 64.2 per cent of the votes. Half of these shares were later sold to Laurentide's senior management.

In 1966 the finance industry faced a crisis in the wake of the collapse of Atlantic Acceptance Corporation, a finance company which had defaulted on a promissory note. This revealed weaknesses in Laurentide's accounting practices and in its management. These factors combined to close Laurentide off from the commercial paper market which had, until then, served as its main source of funds. Laurentide's very survival was threatened.

Power Corporation lent Laurentide $4 million in the form of a medium-term note, injected $9 million in additional equity, bought back the subordinated common shares which it had sold, and changed the company's management. As a result Laurentide survived, although additional help was required in late 1968 to restore it to complete health.

Laurentide is today the third largest finance company in Canada.

Canada Steamship Lines Limited (see also page 25) In May 1963, Power Corporation, under the direction of Maurice Strong, bought 300,000 common shares (23.8%) of Canada Steamship Lines from Algoma Steel at approximately $50 per share. It also bought 78,093 preferred shares. The total cost was $16,138,000. Both classes of shares were split 2 for 1 a year later.

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* - A fuller study of the purchase of companies which are still controlled by Power Corporation today is contained in Section II of this report, beginning on page 25 , and in Part Two, the separate reports on the individual companies.

Canada Steamships had the largest Canadian fleet operating on the Great Lakes and the St. Lawrence Seaway, the largest trucking organization in Canada, four shipyards and other miscellaneous assets. Additional open market purchases, mostly in 1967, brought Power Corporation's holding at December 31, 1967, to 773,850 common (30%) and 344,240 preferred (18.8%) shares.

Consolidated-Bathurst Limited (see also page 28) Power Corporation first acquired an interest in Bathurst Power and Paper Limited in 1929 and increased it during the 1930's, 1940's and early 1950's. After a capital reorganization in November 1961 it held 308,000 (47.4%) common shares and 48,360 (12.2%) Class A shares. An additional 154,000 common shares were purchased in 1963 at $14.50 per share under a rights offering.

Bathurst was a small paper company whose mill in Bathurst, N.B. produced linerboard and box board. A number of plants from New Brunswick to Manitoba produced containers.

In 1965 Bathurst embarked on a course of expansion. It built a mill in New Richmond, Quebec, to produce kraft linerboard. Jointly with Bowaters, Bathurst also acquired control of Bulkley Valley Pulp & Timber in British Columbia.

Early in 1965 Power Corporation broadened its base in the paper industry by buying 925,000 (15.6%) common shares of Consolidated Paper Corporation for $46,767,473. Of these shares, 785,100 were obtained from St. Regis Paper Corporation.

Consolidated Paper had five mills in Quebec which produced primarily newsprint, and five industrial bag plants which it had bought from St. Regis in 1960. It was also constructing a bleached kraft pulp mill at Pontiac, Quebec, and acquiring subsidiaries to provide captive outlets for the product.

Late in 1966 Consolidated Paper purchased Bathurst on terms mutually acceptable to the independent members of both boards of directors. Consolidated offered one 6%, $25 preferred share and half a warrant (to buy a Consolidated common share at an initial price of $40) for each Bathurst common share. After this transaction Power Corporation was the largest single shareholder in the merged firm with 925,000 (15.6%) common shares, 555,167 preferred shares and 285,000 warrants. In 1967 it sold 63,967 preferred shares, retaining 491,200.

Dominion Glass (see also page 30) Dominion Glass is Canada's largest producer of glass containers. In May 1967 Power Corporation and Consolidated-Bathurst bid jointly for 1,200,000 shares (50.3% voting interest) in the company at $15

per share. More than 1,200,000 shares were submitted and they were taken up on a pro rata basis. Additional purchases in the open market brought Power Corporation's holdings to 660,647 (27.7%) at December 31, 1967.

Having obtained control of Dominion Glass, Power changed the company's management and embarked on a plant expansion program.

McIntyre Porcupine In 1964, Power Corporation bought 200,000 shares of McIntyre Porcupine for $11,513,000. This was 8.7 per cent of the capitalization. In 1966, the shares were sold to Superior Oil Co. of Houston, Texas at a 100% profit. The annual report commented: "In view of the substantial size of this investment and the fact that we were not in a position to affect significantly its future direction, your directors decided that your interests would be best served by selling this block of stock. Notwithstanding its sale the Corporation is still interested in obtaining a major investment in the mining field if a suitable opportunity arises".

Power has not in fact made any investment in mining since 1966.

Northern & Central Gas Company Maurice Strong, who had worked in the oil industry in Calgary before joining Power Corporation in 1962, used his experience to acquire for Power an oil and gas investment which would replace Canadian Oil Companies. In January 1963 Power Corporation bought a 30 per cent interest in Canadian Industrial Gas for $3 million. This company grew rapidly by absorbing six smaller public companies within the following two years.

Power Corporation purchased additional shares to maintain its position. By June 1965 it had a 26.4 per cent interest at a cost of $10 million and with a market value of about $12.5 million. In addition it held $1.7 million worth of preferred shares.

In 1966 Northern & Central acquired Greater Winnipeg Gas Company on a share-for-share basis. (Power Corporation held a 24 per cent interest in Greater Winnipeg Gas which dated back to its original investment in Winnipeg Electric Company in 1926). The same year Northern & Central took over Canadian Industrial Gas & Oil Ltd. (as C.I.G. was then known), also on a share-for-share basis. As a result of these two acquisitions Power Corporation emerged as the largest shareholder of Northern & Central Gas.

PCC thus owned 21 per cent of a company which had earnings of $8.5 million in 1966. It distributed gas in Winnipeg and across Northern Ontario and produced gas and oil in Western Canada. Power Corporation, and especially Maurice Strong, had played a significant part in building a company which subsequently continued to grow and which, under its present name of Norcen Energy Resources Limited, is one of Canada's major corporations. Power Corporation's involvement became less active after 1966 and in 1970 it sold its shareholding.

Canadian Interurban Properties Limited Power Corporation acquired control of this real estate company in 1964. Canadian Interurban then bought Power's other real estate interests, including its investment in the Wellington Square shopping centre in London, Ontario, which Power Corporation had acquired in 1961. Power's real estate interests were thus consolidated in one subsidiary.

In 1970, Canadian Interurban was sold to Campeau Corporation.

North American Recreation Industries Ltd. Peter Thomson was attracted by the potential of industries which catered to the nation's increased leisure time. North American Recreation Industries was organized to hold Power Corporation's interests in smaller companies such as travel agencies, hotels, television stations, movie theatres, etc.

This type of investment did not fit Paul Desmarais' plans and, in August 1968, Thomson (through Warnock-Hersey) bought the company back at a profit to Power Corporation.

Capital Structure

Increases in the capitalization of Power Corporation during the 1957-68 period include:

i) An issue in March 1957 of $5 million 5½% debentures due March 1, 1977. Proceeds were used to buy control of Imperial Investments and to purchase miscellaneous investments.

ii) An issue of rights to common shareholders to buy 1 new common share for 5, and to participating preferred shareholders to buy 1 new participating preferred share for 5, at $55. In September 1957, 94,084 common and 19,457 participating preferred shares were issued. Proceeds were used for miscellaneous investments.

iii) An issue of 600,000 4 3/4% preferred shares $50 par in August 1965. The outstanding 120,000 4½% preferred shares had to be redeemed at $51½ in order to get approval of a by-law authorizing the new issue. The net proceeds were used in the purchase of Consolidated Paper.

In January 1963 all common and participating preferred shares were split on a 10-for-1 basis.

. . .

C. Acquisition of Control by Paul Desmarais

1. Paul Desmarais Prior to 1968

In this section we interrupt the history of Power Corporation to trace the early career of Paul Desmarais.

Early Success with Bus Companies Paul Desmarais was born in Sudbury, Ontario, on January 4, 1927. He was educated at the University of Ottawa (B. Comm.) and in 1950 entered law school at Osgoode Hall in Toronto.

In 1951, Sudbury Coppercliff Street Railway, a small family company originally started by Paul's grandfather in 1916, ran into financial difficulty. Desmarais left law school to become President of the company whose name he changed to Sudbury Bus Lines. The assets consisted of 19 buses and debts exceeded $300,000.

Desmarais owned the bus line for five years. The route from Sudbury to Inco's mine at Copper Cliff was sold to Inco, the city bus operation became profitable and the debts were refinanced. During this period Paul Desmarais was helped by his brother Louis, a chartered accountant, and by Louis' partner Jean Parisien. Louis is now president of Canada Steamships. Jean Parisien was Paul Desmarais' right-hand man until his death early in 1976.

In 1954 Paul Desmarais bought Gatineau Bus Lines of Ottawa from Gatineau Power Company. The purchase was partially financed by the Royal Bank which has been Desmarais' principal banker ever since. After four years of successful operations he sold Gatineau Bus to a Hull businessman and started negotiations to buy Quebec Autobus from a subsidiary of Shawinigan Water & Power.

He completed the acquisition in 1960. The $2 million purchase price was raised in three ways: $500,000 came from Desmarais with help from the Royal Bank, $800,000 from

B.A. Oil which had the contract to supply gasoline, and $700,000 from IAC (Industrial Acceptance Corporation) on the security of the buses. Desmarais sold Quebec Autobus in 1962.

In 1960 Paul Desmarais and Jean Parisien set up a new company, Transportation Management Corporation Limited, which bought 51 per cent of Provincial Transport Limited from the Drury family. The remainder of the 350,000 common shares were acquired late in 1960 through a public offering at $15 per share. The investment firm of Lévesque, Beaubien raised the required funds for this acquisition through a bond issue. Provincial Transport operates inter-city bus routes to Quebec and Ontario. Provincial Transport is now a division of Canada Steamship. It has been directly or indirectly controlled by Desmarais since he first acquired it.

Acquisition of Gelco Ltd. Gelco Enterprises Ltd., an investment company, was established in September 1961 by Gatineau Power Co. after it received compensation for properties expropriated by New Brunswick Electric Power Commission.

Gelco issued Gatineau 3,324,960 shares at $1.20 each and a note for $9,741,618 in exchange for securities of the same market value. This note was reduced to $7,450,000 by the end of 1961. Gatineau distributed the Gelco shares to its own shareholders as a dividend on a two-for-one basis. Gelco shares were redeemable at their net asset value at the end of each month.

Gelco's investment adviser and portfolio manager was Triarch Corporation Ltd. of Toronto. In July 1962 Transportation Management, through Triarch, bid $1.00 per share for all outstanding shares of Gelco. This offer was above the current asset value, though below the value at the beginning and at the end of the year. As a result of that bid, 450,000 Gelco shares were acquired, and subsequent purchases brought the holding to 50 per cent of the shares still outstanding (2,662,194 at December 31, 1962). Most of the purchases were from holders in the United Kingdom. Financing for this acquisition was provided by the Royal Bank.

Once Desmarais had control of Gelco, he changed its investment policy and sold most of its portfolio. In March 1963, Gelco bought 45,000 shares of Imperial Life at $200 per share, and early in 1964 it acquired control of Imperial by purchasing another 6,245 shares at the same price, for a total of 51.2 per cent of the equity. This purchase is discussed on page 32 (see also Part Two for separate section on Imperial Life, page 153).

In 1964 Desmarais folded Transportation Management into Gelco. Gelco issued 6,531,776 Class B shares valued at $1.20 each for all the shares of Transportation Management. This was the first instance of Desmarais' use of the reverse takeover, a technique which he has frequently employed since. By selling a company he owns to another company in exchange for shares, he obtains or increases control of the second company and thereby retains control of the first.

At the end of 1965 Gelco reduced its shares on a 1 for 10,000 basis. All shares not held by Desmarais became fractions which were redeemed at the equivalent of $3.25 per original share. Gelco then became a private company which today is owned 75% by Desmarais and 25% by the estate of Jean Parisien. It is the vehicle through which Power Corporation is controlled.

Initial Investment in The Investors Group In 1965 Desmarais purchased 1 million common shares (33.1%) of The Investors Group from the Canadian Imperial Bank of Commerce for $16 per share, approximately the market price at that time. It reached $16 3/4 shortly after but has never since sold as high. Imperial Life acquired 900,000 of the shares which was the maximum purchase permissible under federal law. (The Canadian and British Insurance Companies Act stipulates that a life insurance company may not own more than 30% of another company.) The remaining 100,000 shares were taken up by Gelco.

This was Desmarais' first investment in the Investors Group which is now controlled by Power Corporation. (See page 33, and also Part Two, page165 for separate report on the Investors Group.)

Acquisition of Trans-Canada Corporation Fund In April 1965 Gelco made a public offer to buy 2.2 million shares (55%) of Trans-Canada Corporation Fund (TCCF) at $13 per share. The offer was successful and the shares were taken up on a pro rata basis. TCCF was an investment company with a controlling interest in 18 other companies, most of them not publicly traded. It had previously been controlled by J. Louis Lévesque who continued to own 12% of the shares after the takeover.

Gelco then sold Provincial Transport and the shares of Imperial Life to TCCF, thereby obtaining funds to help pay for the TCCF shares. This was the second time Paul Desmarais used the reverse takeover technique. (The price paid was not disclosed, but in other transactions Desmarais has usually sold marketable securities at market price and others at book. If this transaction followed the same pattern it was well timed as Imperial Life reached its all-time peak of $390 in May 1965.)

TCCF financed these purchases by increasing its funded debt by $13 million and by selling a substantial number of its investments. Among those sold were shares in Provident Assurance Co., Alfred Lambert Inc. and Le Petit Journal (for $10,219,098) and Dupuis Frères, Librairie Beauchemin Ltée and C. Durand Ltd. (for $3,100,000). F-I-C Fund Inc., a holding and investment company with assets of over $10 million, which had been controlled by TCCF through ownership of its 30,000 voting shares (3% of its total equity) was also sold back to Lévesque.

Newspaper & Communication Interests Trans-Canada Corporation Fund brought Paul Desmarais his first interest in the communications industry which has played an important part in his later career. Although Le Petit Journal was sold by TCCF in 1966 its absence from the Desmarais empire was only temporary. In 1967 it reappeared in the TCCF portfolio under the guise of Trans-Canada Newspapers Ltd. (Les Journaux Trans-Canada Ltée.)

Trans-Canada Newspapers Ltd. acquired three additional daily papers, Le Nouvelliste (Trois-Rivières) from Pierre Dansereau, La Tribune (Sherbrooke), La Voix de l'Est (Granby) and also several weeklies from Jacques Francoeur on a share exchange basis. TCCF then owned 62.2% of Trans-Canada's equity at a book cost of $2.8 million, Francoeur owned 33.3% and Dansereau 4.5%.

In a separate transaction TCCF purchased 100% of La Presse (La Compagnie de Publication de La Presse, Limitée) from the Berthiaume estate for $15 million. This transaction was important not merely from a financial point of view but because of its social and political implications.

La Presse was, and is, the major daily newspaper in Quebec. Its importance to French-Canadian society is demonstrated by the fact that, on three occasions, La Presse has been the object of provincial legislation.

The newspaper was founded by the Hon. Trefflé Berthiaume, who bequeathed it to his legal heirs. However, because of conflicting interests between the beneficiary of the capital and the beneficiary of the income, necessary improvements to the equipment and premises were not made. These had to be enforced upon the estate by a private bill, dated February 22, 1955, which instructed the estate to 'undertake and finance the renewal and modernization of the equipment of the company, and either repair the existing building or build a new one'.

Six years later it seemed that some foreign interests might attempt to acquire La Presse from the estate. On May 25, 1961, the Quebec Legislature, which was then controlled by the Liberal Party, passed another private bill prohibiting the alienation of shares of the company.

But six years later, TCCF, controlled by Paul Desmarais and Jean Parisien, was considered a suitable buyer who could be expected to safeguard the survival of Canada's largest French newspaper. On August 12, 1967, the Quebec Legislature, then controlled by the Union Nationale, passed another private bill whereby "the trustees of the will and of the fiduciary gift are authorized to sell to Trans-Canada Corporation Fund all the common and preferred shares of the company provided that the effective control of Trans-Canada Corporation Fund has not changed between the first of May 1967 and the date on which the said sale is completed. After the sale authorized by the above section 2, no sale, assignment, transfer or pledge: (a) of rights or of any number of shares of any company, the object or result of which would be to change the control of La Compagnie de Publication de la Presse, Limitée; or (b) of a substantial part of the assets of the company, except radio station C.K.A.C. and the newspaper "La Patrie", may be validly made or agreed to, except with the authorization of the Legislature..."

The transaction did not encounter much public criticism at the time.

Before the merger of TCCF with Power Corporation all the shares of La Presse and of Trans-Canada Newspapers were exchanged for a $17.8 million bond of Gesca Limited, a new company whose common shares were all owned by Gelco. The terms of the bond were so drawn that all the income, and any change in the value of the equity would accrue to the bond-holder and not to the shareholder. The purpose was to ensure that control over La Presse stayed with Messrs. Desmarais and Parisien in accordance with the intent of the August 12, 1967 bill of the Quebec Legislature; but that the other benefits of ownership would accrue to Power Corporation.

TCCF's interest in the communications field also included 100% ownership of the common shares of CKAC Ltée, operator of a radio station with the CKAC call letters. The book value of this investment was $10,000.

2. Transfer of Control of Power Corporation to Paul Desmarais

Merger with Trans-Canada Corporation Fund In April 1968, the histories of Power Corporation and of Paul Desmarais converged. Power made an offer to take over Trans-Canada Corporation Fund (TCCF) on the basis of one new Power convertible preferred share for each TCCF common share. The new shares carried a $0.60 dividend, $12.00 par value and are convertible until May 31, 1978 into common shares of Power Corporation on a one-for-one basis.

TCCF's assets consisted of Imperial Life, Provincial Transport, the communication interests outlined above, three real estate companies with a book or market value totalling $21 million (Blue Bonnets Raceway Inc. (68.6%), Show-Mart Incorporated (100%), Trans-Canada Realties Co. Ltd. (100%), and 750,000 shares of Canadian Interurban (14%).

At the same time, P.N. Thomson agreed to exchange enough of his 6% participating preferred Power Corporation shares (10 votes each) for Desmarais' new convertible preferred shares, on a two-for-three basis, to equalize their voting power. Desmarais acquired 200,000 subordinated shares.

Although they shared the voting control, Paul Desmarais became the chairman and chief executive officer and effectively the dominant force in Power Corporation. This was the third reverse takeover of his career. Power took over TCCF, but the controlling shareholders of TCCF effectively became the controlling shareholders of Power.

The same exchange offer was made by Gelco to minority holders of the participating preferred PCC shares in the fall of 1969. For each participating share submitted the owner increased his equity by 50% and his income from $0.44 at the current rate to $0.90, but decreased his votes from 10 to 1½.

The assets of TCCF at February 29, 1968 were worth $6.70 per share with marketable securities valued at market and others at book cost. Dividends of $0.40 per share were being paid annually. TCCF shares had sold in the range of 5 3/4 - 8 during October 1967 to February 1968, but rose to 10 in March 1968 prior to the offer.

The assets of PCC at December 31, 1967, valued on the same basis, were worth $13.70 per share. Dividends were being paid at the rate of $0.44 annually on the common shares.

One may consider the position of the PCC common shareholder in the merger transaction. PCC was under no pressure to make a deal of this type. It appears to have been satisfactory to Peter Thomson, who presumably wished to reduce his responsibilities and it was approved by the Directors, who presumably wished to acquire the services of Paul Desmarais as Chief Executive Officer. But it involved a dilution of the asset value per PCC share from about $13.70 to $11.20. The information circular sent to the common shareholders when they were asked to approve the creation of the new shares contained no explanation of or justification for this dilution, or the need to offer TCCF shareholders a security yielding a 50% higher income and selling almost 100% higher than their former shares.

Completion of Sales by Peter Thomson to Paul Desmarais

In August 1968 an exchange of various holdings between Power Corporation and Warnock Hersey International Limited (controlled by Peter Thomson) increased Power Corporation's interest in those holdings which Power wanted to keep. The companies that Thomson wanted to keep went to Warnock Hersey. The exchange eliminated any conflict of interest between Thomson's roles in Power Corporation and in Warnock Hersey.

Power sold its holdings of Bahamas-Caribbean Development Corporation Limited, Capital Management Limited, Roy West Banking Corporation, North American Recreation Industries Limited (excluding its interest in Quebec Telemedia Inc. and North America Cinema Centres Limited) and Yorkshire Financial Corporation Limited in exchange for Warnock Hersey's 250,000 shares of Canadian Interurban Properties Ltd., 20,000 preferred and 50,000 common shares of Consolidated-Bathurst, 15,000 shares of Dominion Glass, 1,000 2nd preferred shares of Laurentide, and 60,000 shares of Northern and Central Gas Corporation Limited. For purposes of the exchange, marketable securities were valued at market and others at book. Warnock Hersey gave Power a promissory note of $5 million to balance the transaction, the overall value of which came to $10,525,000.

In December 1970 Gelco purchased Warnock Hersey's remaining 600,000 6% participating preferred shares of Power Corporation at $12 per share, thus increasing its voting position to over 50%.

As of December 31, 1975, Peter Thomson still controlled 375,000 5% convertible preferred and 106,505 common shares of Power Corporation (3.0% of the equity and 1.7% of the voting power). He is Deputy Chairman of the Board of Directors.

D. The New Investment Philosophy

The substantial difference between Power Corporation's philosophy under Peter Thomson and under Paul Desmarais is that it now seeks to obtain outright control of the corporations in which it invests rather than being satisfied with a large minority interest.

According to its 1972 and 1973 annual reports, Power Corporation's corporate objective is "to provide a fair return to our shareholders and to the outside shareholders of our subsidiary and affiliated companies and, in furtherance of this objective, to develop in each corporation management with the skill and the expertise capable of creating strong Canadian enterprises within the free enterprise system".

There is no major difference between this and the longer statement of objective printed in the 1965 annual report (see page 11). On the subject of its investment strategy, Power Corporation's brief to the Royal Commission on Corporate Concentration says that:

> PCC seeks to establish control positions in the companies in which it invests. The reasons for this are two-fold.
>
> First, PCC is a professionally oriented shareholder seeking to contribute, through its participation on each of the Boards of the companies in the group, to the skillful management, development and profitable performance of each of these companies.
>
> Second, the greater PCC's equity participation is in them, the greater is the benefit to PCC's shareholders.

Today it has voting control of all companies in which it holds investment, with the exception of Consolidated-Bathurst and Argus Corporation. In both these cases it has made unsuccessful public offers for all the stock.

SECTION II

POWER CORPORATION UNDER PAUL DESMARAIS

A. The Current Portfolio

Most of Power Corporation's important investment transactions since 1968 have been designed to rearrange, rationalize or solidify its position in the four industrial groupings in which its investments are now concentrated: transportation, pulp and paper and packaging, finance, and communications.

New additions to the portfolio which are essentially unrelated to the four industries include a controlling interest in S.M.A. (La Société de Mathématiques Appliquées) which is a data processing company, and a non-controlling position in Argus Corporation, another diversified holding company.

This second section of our report describes the way each of the main subsidiary and affiliated companies was acquired and comments on their value to the PCC shareholder. The voting relationships between these companies are shown in Table III, page 46. For greater detail, the reader is referred to Part Two, the separate company studies attached to this report.*

While this section of our report deals essentially with the present make-up of Power Corporation, it also describes two sets of events the results of which are no longer reflected in the current portfolio. They are the acquisition and subsequent sale of a large interest in Campeau Corporation Ltd., and the bankruptcy of Inspiration Ltd.

Other investments held by PCC or by TCCF at the time of the merger and which are not mentioned in this part of the report were sold in arms-length transactions, usually on the stock exchange.

1. Transportation

Canada Steamship Limited

Canada Steamship Limited is today an operating division of Power Corporation. Its major operations include shipping on the Great Lakes and the St. Lawrence, inter-city bus services in Quebec and Ontario, two shipyards on the Great Lakes,

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* - The only current investment omitted from this report is PCC's shareholding in Liverpool Plains Pastoral Company Pty Ltd. This Australian company is of relatively negligible importance in PCC's affairs and has been retained only for lack of a convenient opportunity to sell it.

and a country-wide trucking company. In 1975, CSL revenues were $293 million, and operating profits (before depreciation, taxes and interest) about $40 million.

At December 31, 1967, Power Corporation held 30% of the common and 18.8% of the preferred shares of CSL. In 1968 it increased its holdings, mainly through the purchase of 591,400 preferred and 313,200 common shares for $13,405,450 from Commercial Trust. At year-end it held 42.5% of the common equity.

In March 1969 Power sold Provincial Transport to CSL for $17,820,000 paid partly in cash and partly in the form of 400,000 CSL treasury shares at $35 per share, which was roughly the market price at the time. This transaction brought Power Corporation's holdings in CSL to over 50% and is another example of Desmarais' reverse takeover technique. The price was determined by a neutral appraisal and was regarded as fair by CSL's management.

On September 28, 1971, Power made an offer to purchase for cash, at $40 each, all the common shares of CSL it did not own. This price represented a premium of 30.6% over the $30 5/8 at which the stock had sold immediately prior to the offer. It also equalled the highest price ever paid for the stock in the past. When the offer expired, Power owned 99.6% of the shares and, under the mandatory provisions of the Canada Business Corporations Act, it acquired the residual shares.

The $40 price does not seem unfairly high, despite the premium over market value. At 11.8 times CSL earnings of $3.39, it compares with a normal 16 to 18 times earnings multiple then prevailing on the Toronto Stock Exchange. A proposed change in the Income Tax Act which was expected to allow the combined companies to save taxes also increased the value of CSL to Power Corporation.

Power took advantage of this tax change in June 1972 when it sold to CSL investments worth $145.2 million, based on market price for listed securities and book value for the Gesca income debenture, the only unlisted security. CSL paid $70.5 million in cash and the remaining $74.6 million with a combination of 9½% notes and subordinated debentures issued to PCC and due at various times up to 1992. CSL used cash on hand and obtained a $50 million bank loan to pay the cash portion of the transaction. Power used the cash to repay bank debts which it had incurred in buying the minority shares of CSL in late 1971.

Since Power owned 100% of CSL common shares by the time this transaction took place, its overall effect was nothing more than an internal rearrangement. It had two substantial benefits for Power Corporation:

i) Reduced income taxes Previously PCC itself had had little income except for dividends from its investments, and dividends were tax free. It had no taxable income against which to apply its interest costs and other expenses. CSL on the other hand could apply the cost of the interest paid against its operating profits when calculating taxes.

ii) Increased cash flow Previously, the parent company did not have sufficient cash flow to pay its dividends out of income received. For example in 1971 it reported consolidated earnings of $10.0 million ($0.53 per share). But $7.3 million represented its interest in the earnings of subsidiaries which the subsidiaries did not pay out to shareholders, including Power Corporation. Thus its cash income was only $2.7 million, while dividend requirements for the preferred and for a $0.05 payment on the common were $4.9 million. Receipt of interest from CSL ended this anomaly.

The transaction attracted some comment because it made use of a change in the Income Tax Act for purposes other than those intended. Until early 1972 a Canadian company could not deduct from its taxable income interest paid on money borrowed to buy dividend-paying securities. A result of this was that a Canadian company was at a disadvantage vis-a-vis a foreign company when bidding for the shares of another Canadian company. Some Canadian companies, which might otherwise have stayed in Canadian hands, were sold to foreigners.

Although the legislative change was not designed to allow a Canadian company to reduce taxes through an internal rearrangement, no blame can be attached to Power Corporation for taking advantage of the opportunity. Indeed its shareholders could justly have criticized the directors had they failed to do so.

In December 1975 CSL redeemed its preferred shares at $6.525, 5% over their par value of $6.25. The shares' previous market price had been about $4.50. All but about 500,000 of these shares were already held by Power Corporation. It was then possible to merge the two companies without any tax liability and CSL became an operating division of Power Corporation. The saving derived from the consolidation of two corporate structures justified the cost of redeeming the preferred shares.

The acquisition of CSL involved a series of transactions between a willing buyer and willing sellers spread over 12 years. The reverse takeover achieved by selling Provincial Transport to CSL and the transfer of PCC's investments to CSL for a tax benefit were two interesting parts of the process but had no effect on the final outcome.

Two senior executives of CSL, Louis Desmarais and Paul Martin, transferred from Power Corporation in 1970 and 1973 respectively, to replace T.R. McLagan and J.W. McGiffin when they retired.

2. Pulp, Paper and Packaging

The pulp, paper and packaging arm of Power Corporation consists of a 38.1% voting interest in Consolidated-Bathurst which in turn, owns 95.9% of the shares of Dominion Glass Company, Ltd.

Consolidated-Bathurst Limited

Consolidated-Bathurst (38.1% owned by Power) is today Canada's fourth largest pulp and paper company with about 18% of the national paperboard capacity and 10% of the newsprint and kraftpaper capacity. Its 1975 sales were $644 million, its earnings $32.6 million.

At December 31, 1967, Power held 925,000 (15.6%) of the common shares, 491,200 preferred shares and 285,000 warrants of Consolidated-Bathurst. In 1968-69 Power sold the warrants, reduced the preferred shares to 331,700 and increased the common to 975,000 (16.2%).

In March, 1970, PCC offered to acquire all the common shares of Consolidated-Bathurst by exchanging 2½ shares of PCC for each share of CB. Although Consolidated-Bathurst had been selling at only about twice the price of Power during the two previous years, the offer was accepted by holders of only 23% of the shares Power did not already own. Power issued 2,883,995 shares at $10.75 (market price when the offer was made) for 1,153,598 shares of Consolidated-Bathurst.

Following this exchange, W.I.M. Turner, Jr. moved from the Presidency of Power Corporation to become President of Consolidated-Bathurst. The general weakness of the paper industry at that time combined with misjudged money-losing expansion had endangered the financial position of the company. Turner arranged for the sale of two unprofitable divisions which management had previously been unwilling to dispose of. Consolidated-Bathurst's loans, some of which were technically in default, were restructured with the help of Power Corporation. In 1972, Consolidated-Bathurst turned the corner and, aided by the improvement in industry conditions, has been profitable ever since.

Power continued to buy CB shares in the market place and held about 2,715,000 of them (43.1%) by December 1973.

In December 1974, there was dramatic bidding for control of The Price Company Ltd. (see Part Two in report on Consolidated-Bathurst, page 100). Abitibi made a public offer for 49% of Price at $18 per share. Consolidated-Bathurst countered by buying the largest block of Price (18%) from English interests. The transaction involved an exchange of 930,385 CB shares for 1,860,770 Price shares and diluted Power Corporation's interest in CB to 37.5%. Consolidated-Bathurst also offered to buy another 40% of Price stock at $20 per share. When Abitibi countered by raising its bid to $25 for 51% Consolidated-Bathurst accepted this offer and submitted the Price shares it had just acquired. The net result was that Consolidated-Bathurst improved its cash position and its debt-equity ratio through the issuance of common stock at a favourable price. The negotiations were master-minded by Paul Desmarais and could not have taken place had he not been in a position to make quick decisions.

At December 31, 1975, Power owned 2,759,358 (38.1%) shares of Consolidated-Bathurst at a cost of $93,339,000 or about $34 per share.

Comment

Power Corporation's investment in Consolidated-Bathurst dates back to 1929. Important commitments were made during all three stages of Power's development.

When Power caused Consolidated and Bathurst to merge, it created a company of greater size, financial strength and flexibility than either of the predecessor companies. There was virtually no overlap in the product lines, and no reduction in competition.

It is not clear if Power Corporation of the pre-Desmarais era should bear any responsibility for Bathurst's expansion program in the early 1960's which could have proved disastrous had Bathurst remained an independent company. Power Corporation under Desmarais did foresee the problems of over-expansion in the late 1960's, but was unable to persuade management to take corrective action until 1970. The managerial assistance it then gave to Consolidated-Bathurst by moving W.I.M. Turner, Jr. into the presidency, the financial backing it provided in 1971 by helping to restructure the company's bank loans, and Paul Desmarais' skill in the Price transactions in 1974, have all been beneficial to Consolidated-Bathurst and its shareholders.

From the viewpoint of the Power shareholder, results now seem satisfactory in light of the recent state of the industry: earnings of Consolidated-Bathurst were $7.10 in 1974 and $4.26 in 1975. However, the market price of CB's equity has not yet regained the price paid in 1965.

Dominion Glass Company Ltd.

Dominion Glass is Canada's largest manufacturer of glass containers and is 96% owned by Consolidated-Bathurst. In 1975, sales were $131 million and earnings $4.9 million.

At December 31, 1967, Power Corporation owned 660,647 shares and Consolidated-Bathurst owned about the same amount. In September 1968, when Consolidated-Bathurst needed cash, Power bought CB's shares of Dominion Glass at $15.75. This price represented CB's cost plus carrying charges.

In April 1973, Consolidated-Bathurst's financial position had improved and it purchased all of Power's 1,359,344 shares of Dominion Glass at $13 per share plus up to $3 more contingent upon Dominion Glass' earnings. The $3 per share was paid in 1975. Dominion Glass was selling at about $14 in April 1973.

In April 1974, when the market price was about $11, Consolidated-Bathurst offered to buy all the minority shares of Dominion Glass at $14. When the offer expired, Consolidated-Bathurst held all the preferred and 95.5% of the common shares. No attempt has been made to acquire the balance.

Comment

By changing the top management of Dominion Glass in 1967, Power Corporation reinvigorated a conservatively run company which was producing a low return on invested capital. Subsequent results have been erratic, partly because of labour problems. There has been an improving trend in the past three years, and the return on invested capital exceeded 10% in 1975.

The treatment of the minority shareholders of Dominion Glass is examined in the separate report on that company, in Part Two, page 127. The shareholders of Consolidated-Bathurst should be satisfied with their investment as long as earnings remain in the range of recent levels ($1.46 in 1974, $2.04 in 1975, fully diluted). The shareholders of Power, however, received only a small direct reward from their ownership of the Dominion Glass shares purchased in 1967. They received even less direct reward from the shares they bought from Consolidated-Bathurst in 1968 and sold back to Consolidated-Bathurst in 1973 at virtually the same price. They will benefit from the future results of Dominion Glass only indirectly through their interest in Consolidated-Bathurst.

3. Finance

Power Corporation's financial investment group consists of:

- Laurentide Financial Corporation Ltd.
- The Imperial Life Assurance Company of Canada Ltd.
- The Investors Group, which controls:

  The Great-West Life Assurance Company (50.1%)
  Montreal Trust Company Ltd. (50.5%)

Laurentide Financial Corporation Ltd.

Laurentide is Canada's third largest public finance company. Gross income in 1975 was $72 million and net income $5.5 million. It is 57.9% owned by Power Corporation.

At December 31, 1967, Power Corporation had a 64% voting interest in Laurentide through ownership of 14% of the common shares, all the subordinated common shares and $9 million worth of subordinated preferred shares. Although Laurentide was recovering from a near collapse in 1966, its preferred dividends were in arrears and its credit was not fully restored.

In a series of transactions in late 1968 and early 1969 Power brought about a reorganization of Laurentide's capital. First PCC invested an additional $2.7 million in Laurentide's common equity. Then it waived the accumulated dividends ($1 million) on its preferred shares and converted them into 1 million common shares. It also converted its 3 million subordinated common shares into 428,571 common shares (1 for 7) leaving the common shares as the only voting equity. Finally, it bought 100,000 new preferred shares for $2.7 million and immediately converted them into 400,000 common. This manoeuvre was completed in two steps to allow most of the money to be credited to surplus, thereby eliminating a deficit and clearing the way for resumption of preferred dividends.

By December 31, 1969, Power Corporation held 2,129,170 (53.7%) common shares of Laurentide. Subsequent purchases have brought the position to 57.9%, at a total cost of $21,746,000 or about $9.10 per share.

Comment

Power Corporation's actions are discussed from the viewpoint of a Laurentide shareholder in the report on Laurentide Financial Corporation (Part Two, page 141). In brief, PCC's help was vital to Laurentide's recovery from the 1966 crisis. Perhaps Power Corporation should bear some of the blame for the occurrence of the problems, but it was not the main culprit. Current results are satisfactory.

The original investment by Power Corporation in 1956 illustrates why acquisition of control can justify the payment of an apparently high price per share. Laurentide agreed to pay a management fee to Power. PCC had to do little work for several years to earn this fee apart from introducing Laurentide to suppliers of credit, and lending its prestige (but not its guarantee) to their negotiations. The introductions were valuable to Laurentide, and the fee gave Power an income that justified using the capital to buy the shares.

In 1966, Power could have allowed Laurentide to go bankrupt. This would have involved writing off an investment of approximately $5 million. Laurentide's bankruptcy, had it occurred, would have had a significant but intangible effect on Power Corporation's influence in the investment world. From the public viewpoint, such an event could have precipitated worse problems in Canada's financial system than those that actually occurred. Power Corporation injected about $12.7 million directly into Laurentide's treasury in the 1966-69 fiscal years. Without this massive assistance Laurentide could not have survived. At December 1969 the market value of Power's holdings in Laurentide was $12.5 million, less than its total investment in the company during the three previous years. By December 1975 the book value of Power's equity holdings in Laurentide had reached $25,558,000 although the market value was only about $15 million. Laurentide resumed dividend payments in September 1970. Since March 1973 annual dividend payments have amounted to $0.50 per share. Power Corporation also continues to receive the management fee, although it is now small in relation to the size of the investment.

It appears that the risks Power took and the extra investments it made in 1966 to 1969 have been justified by the saving of the original investment, the increase in the underlying equity, and the modest but increasing income derived from Laurentide Financial Corporation.

The Imperial Life Insurance Company of Canada

Imperial Life is the tenth largest life insurance company in Canada on the basis of its assets. Power Corporation's 51.2% share of Imperial's equity was originally acquired by Gelco in March 1963 at the equivalent of $100 per share. When Gelco sold Imperial to TCCF in 1965 the market price had climbed to $170 per share; this is the price at which the stock now stands in Power's books.

Power Corporation has apparently made no change in the operating management of Imperial. Growth in the business and in profits has been satisfactory.

Imperial bought 900,000 common shares of The Investors Group at $16 per share in November 1965. This was a 30% position at the time. The shares are still held, although they now represent 13.2%, and Power Corporation owns 56.4% of The Investors Group directly.

Comment

The investment in Investors has given a poor return to shareholders of Imperial and there have been no operating benefits to either company from the association. The investment is probably best explained by the fact that whereas it is now possible for a salesman to be licensed to sell both mutual funds and life insurance, this was not the case in 1962. Today, Investors co-operates with Great-West rather than Imperial in such sharing of services.

If the return on an investment is judged on the basis of the present value of the future flow of dividends, Gelco's purchase of Imperial at $100 per share has given a low return. By the same token, the price paid by TCCF, $170 per share, has given an even lower return. The dividend rate has increased steadily from $1.50 in 1962 to $3.60 today.

The Investors Group

Investors manages Canada's largest group of mutual funds. Its sales force sells investment certificates and mutual funds. Some of the salesmen are also licensed to sell life insurance. The company controls the Great-West Life Assurance Company and Montreal Trust Company.

At December 31, 1967, Imperial Life owned 900,000 (25.7%) common shares of Investors while Gelco owned 100,000 shares. In April 1969, Investors and Power Corporation became involved in a fight for control of The Great-West Life Assurance Company (see page 35), which ended in Investors acquiring a 50.1% interest in Great-West. To help finance the acquisition Investors issued 3 million treasury shares to a group of institutions at $12 per share, of which PCC took up 1,150,202 shares.

In early 1970, Power Corporation acquired absolute control of Investors through two transactions. In January it exchanged 1,093,478 of its own shares valued at $11.50 per share for an equal number of Investors shares held by the Royal Bank and the Canadian Imperial Bank of Commerce. Then in February it purchased 1,028,400 shares from Canadian Pacific Investments at the equivalent of $12½ per share in exchange for 420,000 common shares of Northern & Central Gas, 241,900 preferred shares of Consolidated-Bathurst and cash. At December 31, 1970, after further small purchases on the market, Power Corporation held 3,431,780 or 50.2% of the common shares. Allowing for the non-voting Class A

shares, PCC held 27.9% of the equity. In addition Imperial Life still held 900,000 shares, now diluted to a 13.2% interest, and Great-West held 650,000 shares or a 9.5% interest.

Subsequent purchases on the open market have increased Power Corporation's holding to 3,866,050 common shares and about 490,000 Class A shares. This represents 56.6% of the votes and 34.0% of the equity. The total cost was $51,940,000 or $11.92 per share.

Power Corporation has not changed the operating management of Investors. Senior executives who retired have been replaced in a normal manner by people who were already working for the company. However, Paul Desmarais participated in the decisions to acquire controlling interests in Montreal Trust and Great-West Life. He was a director of Investors Group when it acquired a minority position in Montreal Trust, though it is not known whether he played a major part in that decision. But he was instrumental in increasing the position to 50% in 1972, and played an important part in the acquisition of Great-West Life.

Comment

Since Paul Desmarais first took an interest in Investors in 1965 the company has become the parent of a financial empire. However it is not clear that the shareholders of Power have benefitted from their holdings of Investors, or that the shareholders of Investors have benefitted from its purchases of Great-West and Montreal Trust.

Investors annual net income had climbed rapidly and with virtually no interruption from $132,000 in 1947 to $5,731,000 in 1965. As the company reached maturity the growth slowed. Net income from its own operations increased only 21% to $6,951,000 between 1965 and 1975.

Consolidation of the earnings of Great-West and Montreal Trust has resulted in an increase in reported earnings from $0.69 per share in 1965 to $1.24 in 1975. However only Investors' own operating income plus dividends from the subsidiaries are available to pay dividends to Investors' shareholders. On this basis Investors earned only $0.72 per share in 1975.

Investors' dividend rate was $0.40 in 1965 and is currently $0.50. Power Corporation is receiving a cash return of 4.2% on its investment. (Imperial Life is receiving only 3.1% based on its cost.) The book value of the equity in Investors is increasing because of reinvested earnings, but it is still 34% below the carrying value on Power Corporation's books.

The market price of Investors has been below Power's cost since it was acquired except for a brief period in early 1973. This however is not necessarily an indication of the true value of an investment. The purchases were all made at about market price and at the time of the three major acquisitions (late 1965, April 1969, and January 1970), Investors' stock was at peak prices.

The separate reports on Investors, Great-West and Montreal Trust in Part Two reveal that common ownership has had little effect on the operations of the three companies or on those of their competitors.

The Great-West Life Assurance Company

Great-West sells life and health insurance in Canada and the United States. Within the Canadian market it is the largest health insurer and, in terms of business in force, the second largest life insurer. It is 50.1% owned by The Investors Group.

Investors acquired 501,000 shares (now 1,002,000 shares after a 1970 split) at an average cost of $141 per share in 1969.

The complex details of the transaction are contained in the separate report on Investors (Part Two, page 165). In brief, Investors purchased 194,000 shares from Great-West Saddlery (a completely separate company despite the name) which had itself been trying to get control of Great-West Life. The remaining stock was bought on a pro rata basis from shares submitted in response to a public offer.

In the course of the transaction a group of investors sold 650,000 common shares (10%) of Investors to Great-West Life. This unusual example of corporate interaction was necessary to get the co-operation of D.E. Kilgour, President of Great-West Life in the takeover. Gelco supplied some of this block of shares.

Kilgour retired at the end of 1970 and was replaced by J.W. Burns, formerly Director of Marketing (U.S.). Great-West had a number of operating problems in 1969-70, many of them beyond the control of management. In 1971 it resumed the strong growth it had shown earlier.

Comment

Paul Desmarais moved forcefully to take advantage of an opportunity when Great-West Life was in danger of being taken over by "Saddlery". The management of Great-West did not like the management of "Saddlery" and was looking for a more compatible second group to forestall the first one. By negotiating the takeover of Great-West by Investors

Group, Paul Desmarais enabled a successful company to continue operating in its traditional way. Whether the alternative takeover would in the long run have been less beneficial to Great-West Life is a matter of conjecture.

From the viewpoint of Power Corporation and Investors shareholders the only question is whether the price was justifiable. Evaluation of the financial statements of life insurance companies is difficult because their accounting methods are different from those of ordinary companies and their reported profits are considered by many analysts to understate the true results. Other companies' equity can, at times, be valued on the basis of net assets; but this does not apply in the case of insurance companies.

Ordinary investors can only judge a life insurance investment on the basis of the present value of the expected flow of dividends. Any expectation of a capital gain based on other considerations would be speculative.

Dividends paid by Great-West have increased steadily from $1.05 in 1969 to their present level of $3.00. The latter figure is 4.3% of the initial cost, which is not in itself sufficient to justify the investment.

The initial cost was a 75% premium over the market price prior to the battle for control, but was only 8% above the value of the equity on Great-West's books.

Montreal Trust

Montreal Trust is a full service trust company. It ranks seventh in Canada in terms of balance sheet assets, but second in terms of assets under administration. It is 50.5% owned by The Investors Group.

Investors bought its initial position of 329,500 (15%) shares in April 1967 from Canadian Pacific Investments in exchange for 483,615 of its own common shares and $446,620 in cash. The Montreal Trust shares were valued at $19 each.

In April 1968 Investors sold Investors Trust Company to Montreal Trust for 250,000 shares valued at $12.40 each. This gave it a 23.7% position. The purpose of the relationship was to enable Investors' salesmen to offer estate planning services to the clients. The company's own resources, human and financial, were not sufficient to allow them to duplicate the facilities of a national trust company.

In 1972 heavy trading in MT shares aroused suspicions that another party might be trying to acquire control. To forestall this possibility, Investors purchased 721,107

shares on the floor of the exchange at an average price of $24.13, or $4 to $5 higher than the level at which the stock had been trading.

Montreal Trust's record since the mid-1960's has lagged behind its competitors (see separate report in Part Two, page 201). Paul Britton Paine, Q.C. moved from Executive Vice President of Power Corporation to become President of Montreal Trust in May 1973 when his predecessor retired because of sickness. It is too early to judge the results of the appointment. It might be suggested that Power Corporation should have intervened more strongly in its affiliate's management at an earlier date.

Comment

Although the relationship between Investors and Montreal Trust was initiated for business reasons rather than purely investment reasons, it does not appear that the connection has had a significant impact on the operating results of either party.

Viewed as an investment, the relationship with Montreal Trust has not so far proven profitable. The average cost was $20.50 per share. MT dividends were $0.68 in 1967, dropped to $0.60 in 1969 and 1970, climbed to $1.00 in 1973, and are currently $0.70. This provides a yield of 3.4% on the average cost. The book value of Montreal Trust equity is currently around $16¼. The market price is now barely half the cost, but the stock trades too rarely for the market to be a reliable indicator of its real value.

The operational advantages which Investors derived from the association with Montreal Trust apparently predate the expensive acquisition of majority control in 1973. These advantages were in jeopardy and Investors sought majority control in order to consolidate and maintain earlier gains. Had it not been threatened by a third party takeover the looser relationship could have continued without additional costs.

4. Communications

After the merger with TCCF, Power Corporation held interests in newspapers through a $17.8 million income debenture of the newly created Gesca and in radio and television through its 100% ownership of CKAC Ltée and 50% ownership of Quebec Telemedia which in turn owned station CHLT in Sherbrooke.

CKAC and Telemedia

In December 1968, Power bought the remaining 50% of Quebec Telemedia. In the course of the next year, however, Power decided to sell both its radio and television interests in response to public concern over the potential dangers of concentrated ownership of communications media. There is no evidence that Power shared this concern, but it presumably felt that the divestment would be a prudent business move.

CKAC and Quebec Telemedia were sold to Telemedia (Québec) Ltée, a new company controlled by Philippe de Gaspé Beaubien. Payment was a $7.25 million 6% general mortgage bond. As permitted under the original terms, interest was accrued for the first five years. In 1975 the interest rate was changed to prime plus ½%, and the accrued interest was converted into $2,175,000 of participating non-voting preference shares. This company, the name of which has been changed to Beaudem Ltée, appears to have been successful, but its financial results are not public.

Gesca Ltée

The income debenture of Gesca held by Power Corporation after the 1968 acquisition of TCCF was structured to represent 100% of the equity in the company, but none of the votes. Gelco held the voting shares to comply with the August 12, 1967 Act of the Quebec Legislature concerning ownership of La Presse.

Gesca held 100% of La Presse and 62.2% of Trans-Canada Newspapers, which in turn owned daily newspapers in Sherbrooke, Trois Rivières and Granby, several weekly papers and a printing plant in Granby.

In 1969, Power Corporation sold the debenture to Gelco, apparently on the assumption that the separation of the equity interest from the votes might not be sufficient to satisfy the spirit of the 1967 Quebec Act regarding ownership of La Presse. In December 1970 the debenture was sold back to Power Corporation. By this time Gelco owned over 50% of PCC, so there could no longer be any question about control. Each of these transactions was done at book value.

In 1973 the objectives of Jacques Francoeur, who owned 33.3% of Trans-Canada, and of Power Corporation began to diverge. In an effort to defuse mounting criticism of

excessively concentrated press ownership, the two parties agreed to split their assets: Francoeur sold his shares of Trans-Canada but received the weekly newspapers and the printing plant. Gesca retained the three daily newspapers. Shortly afterwards, it purchased Montréal-Matin, a daily newspaper which had been the organ of the Union Nationale.

In August 1973 Paul Desmarais announced his intention of buying the largest Quebec City daily, Le Soleil. This proposed purchase was strongly opposed by the Fédération Professionnelle des Journalistes du Québec, the Conseil de Presse, several editors including Claude Ryan of Le Devoir, three major unions, and others on the grounds that it would threaten freedom of the press. Desmarais agreed to delay the purchase until after a provincial election in the fall. In January 1974, Le Soleil was sold to Jacques Francoeur.

In late 1971 La Presse suffered a strike which prevented publication until February 1972. Following the strike Roger Lemelin was appointed President and Publisher and has run the paper successfully since then.

The power of the press to influence public opinion and the trend towards fewer competing newspapers in individual cities have caused increasing debate about the question whether newspaper owners should be the arbiters of editorial policy. Paul Desmarais does not interfere in normal operations of La Presse, but it is obvious that he would not appoint a publisher whose basic philosophy was different from his own.

On December 9, 1972, La Presse published a lengthy statement entitled "Definition and Policy". This document was included in full in Power Corporation's submission to the Royal Commission on Corporate Concentration. On two controversial issues it states: "La Presse believes in a strong Quebec within a Canadian confederation..." and "La Presse believes in free enterprise as practised and evolving in the world but approves a degree of state intervention and planning". This statement was signed by both Paul Desmarais and Roger Lemelin.

Since the strike at La Presse, Gesca has been profitable. Annual profits have been:

Year	Profit ($'000)
1971	(3,495)
1972	1,621
1973	2,434
1974	3,378
1975	2,274

However Gesca has reinvested all its profits and has also borrowed an additional $5,415,000 from Power Corporation to expand its business.

Comment

An evaluation of the dangers to society inherent in press ownership and control is beyond the scope of this report. However, the power of the press must be exercised by someone. The liabilities of the present system must be weighed against the dangers of any proposed alternative.

Gesca's financial results since 1971 have been reasonable from the viewpoint of Power Corporation shareholders, although they may hope that Gesca will soon start to pay dividends instead of requiring advances. It might be noted that the loss incurred as a result of the 1971 strike might have been sufficient to seriously injure a newspaper that was not part of a larger empire.

5. New Areas of Investment

SMA (Société de Mathématiques Appliquées)

Power Corporation acquired control of SMA in 1974 in a non-arm's length transaction.

SMA is a computer services company which was also engaged in film production and distribution. It was founded in 1964 by a group of professors of the Department of Mathematics at the University of Montreal. It issued shares to the public in 1968 and is listed on the Montreal Stock Exchange. In 1971 it was in serious financial difficulty, but it seemed desirable to preserve a computer service organization in the French Canadian milieu and Paul Desmarais was asked if he could help.

SMA was not a suitable investment for Power Corporation at the time as it was close to bankruptcy and required financial and operational reorganization. However, since Power and its associated companies do use the services of this type of company, Gelco undertook the reorganization of SMA with the financial and managerial assistance of La Caisse de Dépôt et de Placement du Québec.

In 1974 it appeared that SMA might become profitable by 1976. Since a substantial part of its revenues would come from Power Corporation and its associated companies, there would be an obvious possibility of conflict of interest if majority ownership were in the hands of Gelco.

The Board of Directors of Power, with Messrs. Desmarais and Parisien absent, voted to buy Gelco's interest in SMA. By February 1974 Power Corporation owned 1,916,858 shares (55.1%) and $725,000 debentures convertible into 725,000 shares. La Caisse de Dépôt et de Placement owned another

major block of equity, a 22.3% interest. Power paid Gelco its cost, less all expenses associated with the production of an unsuccessful feature length film. Book value fell short of this net amount because of losses incurred between 1971 and 1973. At December 31, 1974, Power Corporation's investment in and advances to SMA were $3,986,000.

In 1975 SMA issued $6.3 million in convertible income debentures to Power in exchange for advances and the previous convertible debenture which bore a total value of the same amount. This debt is expected to increase to $8 million. The interest rate is the greater of 8% or half the bank prime plus 2%. The debentures are convertible at $0.50 per share. In addition to the purchase of these debentures Power waived $830,000 in interest on the previous debt. SMA's financial history is given in the Appendix to this study, pages 66, 67.

Comment

SMA is a controversial acquisition. It is doubtful if Gelco would have taken an interest in SMA in 1971 on investment grounds alone had there been no political pressure. The risks were still high in 1974 when Power Corporation took the load from Gelco even though prospects had improved.

At the time of writing it is still uncertain whether Power Corporation will get any return from this investment.

Argus Corporation Limited

Argus, like Power, is an investment holding company. It currently owns about 23.5% of Dominion Stores, 16.9% of Domtar, 21.3% of Hollinger, 16.4% of Massey-Ferguson, 47.7% of Standard Broadcasting. It also has over $14 million in cash and no outstanding debt. There are three outstanding issues of preferred shares totalling $28.9 million at par value. The common equity is composed of 6,770,944 Class C preference shares and 1,692,736 common shares. The two classes are identical except that only the common shares have a vote.

At May 31, 1976, the assets of Argus were $243 million (based on investments at market value). The net asset value of each Class C and common share was $25.10.

Power Corporation bought 175,484 common shares (10.4%) in 1969. Of these, 131,434 were bought in a non-arm's length transaction from Gelco at $21, the current market price; and the rest were bought on the open market.

On March 25, 1975, PCC announced a bid to acquire all the outstanding shares of Argus Corporation Limited at a price of $17 per Class C share and $22 per common share. The prices compared with $12 5/8 for the Class C and $15½ for the common at the previous day's close. The offer would not be binding unless at least 80% of each class was submitted, but PCC could waive this condition. The Royal Bank and The Canadian Imperial Bank of Commerce were to provide the cash on a temporary basis. If all the shares had been submitted the cost would have been $148.5 million.

A majority of the common shares (50.9%) were owned by the Ravelston Corporation Ltd., a private company whose owners, J.A. McDougald, G.M. Black, Jr., A.B. Matthews, M.C.G. Meighen, and D.S. Chant, were all directors of Argus. J.A. McDougald, President of Ravelston, stated publicly on the night of the offer that Ravelston would not sell its Argus shares and that therefore neither Power Corporation nor anyone else could obtain control.

The next day, March 26, André Ouellet, then Minister of Consumer and Corporate Affairs in the federal cabinet, announced that the government was considering the possibility of launching an inquiry under the Combines Investigation Act. A few days later, on April 5, 1975, the clerk of the Privy Council announced the formation of the present Royal Commission.

Power had already mailed its offer on April 3. The offer expired on April 25 and was not extended.

On April 8, Argus sent a letter to its shareholders informing them of Ravelston's decision. It also said that the shareholders of Ravelston would not submit the 1,359,000 (20.1%) Class C shares which they owned. The Board of Argus made no recommendation to the other shareholders.

On April 11, Power Corporation issued its 1974 annual report which commented on the Argus bid: "The acquisition of this major holding company, with substantial holdings in diversified industrial and other companies would be a further step in broadening your company's asset base and potential earnings". These are the only public explanations Power has given for making the offer. Mr. Desmarais referred to it in the same terms at Power's annual general meeting on April 30.

On April 17 E.P. Taylor, a founder of Argus, confirmed rumours that he would deposit 1,250,000 (18.5%) Class C shares he controlled. He could not submit his 175,000 (10.3%) common shares because of an agreement with Ravelston.

When this agreement expired in June 1976 he sold his common shares to Power. The price was then $30, a level set by Ravelston in some private purchases it had made.

On April 25 Power Corporation announced that it would accept all the shares deposited although it did not have 80% of either the Class C or the common shares. In total, 63,949 common shares and 4,053,038 Class C shares were deposited. Power continued to buy common shares on the open market and at December 31, 1975, held a total of 252,752. Together with the shares subsequently bought from E.P. Taylor, it now holds 25.3% of the votes and 52.9% of the equity.

The funds needed to finance the purchase were provided by the sale to three Canadian banks of $70 million worth of income debentures due on various dates from June 1976 to June 1985. The interest rates vary according to the date of maturity and average half the bank prime rate plus 1½%.

Comment

The Argus transaction has been Desmarais' most controversial and most mystifying expansion bid. For Canadian society as a whole it raises the question of "the economic and social implications for the public interest of major concentrations of corporate power". It was this concern which led to the creation of the Royal Commission on Corporate Concentration.

For Power's shareholders the acquisition raises two questions: how would the additional assets have increased their investment income, and why were the shares taken up when it was clear that control could not be obtained?

The combined size and power of the two companies cannot be measured exactly. At its 1975 year-end, Power reported total assets of $579 million (including operating assets) based on book value which exceeded market. Equity was $360 million. In the same year Argus reported assets of $204 million, all of which were valued at market. At book value the assets were $120 million. Equity was valued at $191 million, and liabilities at $13 million. As a rough estimate, the combined firms would have had assets around $700 million, taken at either book or market value.

The assets the company would have controlled are substantially larger, but cannot be defined because the word "control" has so many shades of meaning. Power holds over 50% of the votes of Investors, which in turn has over 50% of Great-West Life and of Montreal Trust. Yet in practice Power can make no use at all of the assets of Investors

for its own purposes; it has made no use of the corporate funds of Great-West Life or of Montreal Trust, and is legally restricted from using the much greater assets managed but not owned by these companies.

Argus has substantial influence over its five major holdings. Yet Power, with a similar stake in Consolidated-Bathurst was unable during the 1968-1970 period to persuade it to dispose of its unprofitable investments until W.I.M. Turner became President in 1970.

In fact, Paul Desmarais' past record suggests that he would have sold some, or even all, of Argus' investments and used the proceeds to acquire control of other companies. He might also have taken advantage of Argus' unused borrowing power.

The merged company would by itself have ranked 31st in terms of assets on the Financial Post's 1975 listing of Canada's top industrial companies or 33rd on the list of financial companies. Among diversified investment companies, it would have ranked behind Canadian Pacific Investments (assets $3,511 million), Brascan (assets $2,247 million), and Canada Development Corporation (assets $1,278 million), and would have been about the same size as Genstar Ltd. (assets $705 million). Figures are not available in the case of Cemp Investments, a private holding company which does not report publicly.

Power's earnings will be reduced, at least initially, by its purchase of Argus shares. Argus' dividend of $0.80 gives Power a return of 4.7% on its cost for the Class C shares, and Power is paying about 6.5% on the money it borrowed to buy the shares.

The asset value of Argus is higher than the price paid (based on market prices of the investments, the asset value was $19.27 on April 4, 1975 and $25.10 on May 31, 1976), but as long as Power Corporation is a minority shareholder, it will not be able to make use of this asset value. Presumably Paul Desmarais expects eventually to acquire control of Argus at a reasonable price. This outcome is possible but far from certain. Minority shareholders of Power might wish that their company's credit had been used to acquire assets with a greater immediate return, and with more certainty of ultimate success.

6. Other Portfolio Changes

Campeau Corporation Limited

After the merger with TCCF, Power Corporation had four real estate holdings: Canadian Interurban, Blue Bonnets Raceway, Show Mart and Trans-Canada Realties.

Campeau Corporation Limited was a real estate development company built up by Robert Campeau, initially in Ottawa. In the late 1960's it was experiencing difficulties in financing all its proposed new developments. Campeau and Power Corporation agreed to a merger in which Campeau acquired all of PCC's investments in the real estate field, effective January 2, 1970.

The details of the transaction were as follows:

3,201,100 Campeau treasury shares were exchanged for 4,573,000 shares of Canadian Interurban on a 7 for 10 basis. (In March 1970, a similar offer was made to the minority holders of Canadian Interurban.)

2,648,800 Campeau treasury shares were exchanged for PCC's equity in Blue Bonnets and for all its investments in Show Mart and Trans-Canada Realty.

$6,359,358 worth of newly issued Campeau 6 5/8% notes were exchanged for two notes from Blue Bonnets of the same total amount. The Campeau notes were convertible into common shares at $8.50 each and were to mature in 1974.

PCC subscribed for 1,000,000 Class B voting shares of Campeau at a cost of $200,000.

Open market purchases brought PCC's common shareholding in Campeau to 6,287,180 at December 31, 1970. It held 48.6% of the equity and 52.3% of the votes.

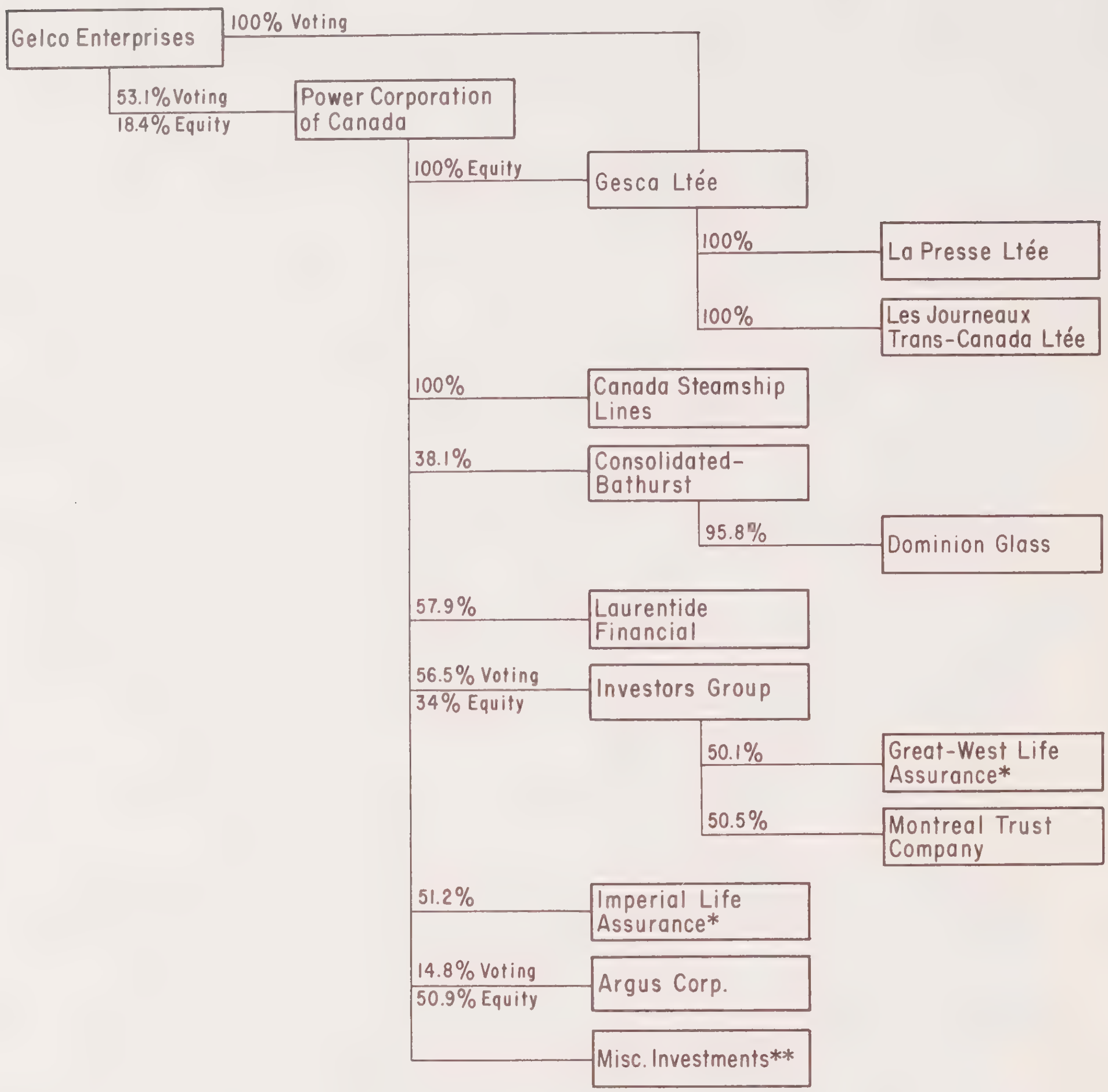
Power entered the merger in order to consolidate all its real estate investments and to get the services of Robert Campeau whose record was proof of his ability. Campeau thought that he would have easier access to financing by being connected with Power Corporation which controlled Investors Group, Imperial Life, Laurentide Financial and indirectly Great-West Life and Montreal Trust.

Both parties were disappointed in the outcome of the merger. Robert Campeau proved to be an entrepreneur who worked best without any outside interference. Moreover, legal restrictions limiting life insurance companies' investments in associated companies, along with PCC policies that had a

Table III

Power Corporation of Canada, Limited

Schematic Diagram of Major Investments, January 1, 1976



*Great-West owns 9.5% of Investors voting shares.
Imperial Life owns 13.2% of Investors voting shares, and 7% of the equity.

**Miscellaneous Investments - SMA - 55.2%; Wabanex - 60.0%; Liverpool Plains - 91.6%

similar effect, meant that the merger enhanced instead of diminished the enlarged company's financing difficulties.

Since the marriage was unsuccessful a divorce was arranged on mutually acceptable terms. In 1972 Power Corporation sold its Campeau shares back to the Campeau treasury at $4.50 for each common share and $0.20 for each Class B share, for a total of $28,492,310. Campeau borrowed money in Switzerland to make the payment. Power Corporation surrendered its convertible note and received a new one for the same amount maturing in 1982 and convertible on the basis of $4.50 per share. In 1973 Power sold this note to an institutional investor for $12,012,115.

Power Corporation lost $2,057,000 on its book cost of the Campeau shares, but this loss was more than offset by a profit of $5,653,000 on the sale of the note. Power had not disclosed how the book cost of the Campeau shares compared with the original costs of the four realty companies, nor how it calculated the cost of these latter companies when they were acquired from TCCF.

Inspiration Limited

This company deserves mention because it is the only subsidiary of Power Corporation ever to have gone bankrupt. It was formed in 1962 by a merger of several construction companies, including G.M. Gest Limited which Power had owned since at least 1955.

Power Corporation owned 52.2% of the stock in 1967, but sold 100,000 shares to bring its position to 47.7% in 1968. Management contracts signed when the company was founded hindered attempts to make changes when trouble occurred. Early in 1970, Inspiration declared bankruptcy.

. . .

B. Power Corporation's Relationship with Affiliates and Subsidiaries, Other Corporations and Minority Shareholders

The following sections describe certain aspects of Power Corporation's contribution to the management and employment policies of its major holdings as well as its influence on their dealings with each other. A list of Power's Board members complements this picture and suggests which of its subsidiaries and affiliates participate most actively in setting policies for the overall structure. Board memberships also reflect Power's links with certain Canadian banks.

In addition, we examine Power's reporting relationship with its minority shareholders and the extent to which the company has sought to protect their interests.

Power Corporation's Management Philosophy

In its submission to the Royal Commission on Corporate Concentration, Power Corporation says that its corporate objective is "to provide a fair return to its shareholders and to develop in each corporation a management with the skill and expertise capable of building strong Canadian companies within the free enterprise system".

It then goes on to explain its management policy:

> "PCC seeks to accomplish this corporate objective by acting as a responsible controlling shareholder of companies operating in the four main investment areas referred to earlier - i.e. transportation, finance, pulp and paper and packaging, and newspapers. As such, PCC is committed to the profitable growth and development of these different companies, and seeks to work through the Board of Directors of these companies with their respective managements to achieve these objectives.
>
> "PCC operates on a decentralized basis, and the individual head of each company is responsible to his Board of Directors for the profitable management of his company. PCC, with a small headquarters staff of 22, including support staff, monitors the performance of each of the companies, analyzes its financial results, and participates through its Board representation in major management decisions. All of the Boards of the companies in the PCC group include one or more representatives of PCC.
>
> "One of the most important responsibilities PCC has as a controlling shareholder of the companies in the PCC group is to ensure, through its representation on the different Boards of Directors, that the chief executive officers of the various companies are well selected and have the ability and the authority necessary to achieve their corporate objectives. PCC seeks to work in close harmony with the different managements to assist in the achievement of their corporate objectives whenever and wherever possible.

"In selecting chief executive officers the Boards of the different companies in the PCC group generally seek to draw from their existing management teams. In certain cases the Board has gone outside the Company to make its selection."

Supervision and guidance of the subsidiary and affiliated companies is handled, on a day-to-day basis, by a very small group of people of whom the following are the most important:

Paul Desmarais	Chairman & Chief Executive Officer
Peter D. Curry	President & Chief Operating Officer
A.F. Knowles	Vice-President Finance & Treasurer
John Rae	Executive Assistant to the President
Daniel Johnson	Secretary

Jean Parisien was a key member of this group until his sudden death on February 20, 1976.

Management Changes in Subsidiaries and Affiliates

Power Corporation has followed the practice of introducing as few changes as possible into the management of newly acquired companies. Whenever practical, subsidiaries continue to operate as autonomous and self-sufficient units.

When Power does intervene the change is usually confined to the Chief Executive Officer and does not involve a purge of lower management. New Chief Executive Officers brought into affiliated companies from outside include:

Laurentide Financial	M.L. Goeglein	1966	(Retired in 1975)
Consolidated-Bathurst	W.I.M. Turner,Jr.	1970	
Canada Steamship	Louis Desmarais	1970	(Chief Executive Officer in 1971)
	Paul Martin	1973	(Chief Executive Officer in 1976)
Montreal Trust	Paul Britton Paine, Q.C.	1973	

Except for Goeglein, all the above executives came from within Power Corporation, and all assumed their positions some time after Power acquired control.

The only company on which Power Corporation has ever imposed a substantial and immediate change in management is Dominion Glass. In 1967, E.A. Thompson was brought in as Chief Executive Officer and most of the other senior officers were also replaced (see separate report on Dominion Glass, page 127).

In its other subsidiaries Power Corporation has made no management changes other than those resulting from routine retirements and promotions.

Employment Policies

Employment policies come under the respective managements of each subsidiary and affiliate. Power Corporation does not intervene in this area.

Public criticism of Paul Desmarais as an employer has essentially been confined to strike periods. Subsidiaries and affiliates have experienced about the same incidence of strikes as other companies in their respective industries.

All Power Corporation holdings now employ more people than they did before PCC acquired control. In its submission to the Commission Power Corporation states explicitly that its objective is to make a profit, but goes on to explain: "It is only by operating at a reasonable profit and by optimizing the use of its resources that a company can properly fulfill its responsibility to act as a good corporate citizen towards its employees, customers, governments and society at large".

Interrelationship Between Various Power Corporation Companies

Table 4 of Power Corporation's brief to the Royal Commission on Corporate Concentration depicts the flow of goods and services between its various subsidiaries and affiliates. However, there is no evidence that Power has imposed a rationalization of services on members of the conglomerate. Separate investment departments, for instance, have been maintained at Investors, Montreal Trust, Great-West Life and Imperial Life. It does not appear that services of any one of these financial companies have been offered to the clients of other companies in the group, although such a practice might be justified. For instance, it would be normal for the consumer loan clients of Laurentide to be offered life insurance or trustee services of Great-West Life or Montreal Trust, but this does not appear to be the case.

According to sources within the investment industry, Power Corporation has respected and maintained the highest degree of professional integrity and has refrained from interfering in investment decisions of its associated companies.

Moreover, subsidiaries and affiliates have continued to maintain whatever corporate relationships they had established before the acquisition of control by PCC. The only time Power Corporation did intervene was in the case of SMA when contracts from other subsidiaries were required to keep SMA solvent.

Directors of Power Corporation of Canada, Limited

The list below gives the names of the Directors of Power Corporation, their principal occupations, and some of the more important directorships they hold outside the Power Corporation group. The list of 17 names includes the two most senior officers of Power and four chief executive officers of subsidiaries or affiliates. Three directors of The Royal Bank of Canada, two directors of the Canadian Imperial Bank of Commerce and one director of Banque Canadienne Nationale are also directors of Power Corporation.

DIRECTORS OF POWER CORPORATION OF CANADA LIMITED
December 31st, 1975

Name and Principal Occupation	Other Directorships
Wilbrod Bherer, Q.C. Lawyer, Bherer, Bernier, Côté, Ouellet, Dionne, Houle & Morin, Quebec City	Canadian Vickers (Chairman) Banque Canadienne Nationale (Vice-President) Gaz du Québec Inc. Le Prévoyance Cie d'Assurance
Alfredo F. Campo, Chairman of Petrofina Canada Limited	Petrofina Canada Limited
Peter D. Curry, President and Chief Operating Officer of Power	CAE Industries Ford Motor Co. of Canada Ltd. Inco Limited
Louis R. Desmarais, C.A. Deputy Chairman of Power; Chairman of Canada Steamship Lines (1975) Limited	Canada Development Corp. (Vice-Chairman) Texasgulf Inc.

Paul Desmarais Chairman and Chief Executive Officer of Power	Brascan Limited Brinco Limited Kaiser Resources Ltd. Siemens Canada Ltd. Standard Brands
William M. Fuller, Partner of Wm. & A.P. Fuller, Independent oil operators	
Pierre Genest, Q.C., Partner of Cassels, Brock, Barristers and Solicitors, Toronto, Ontario.	Federal Trust & Savings Co. Realty Capital Corp. Ltd.
J.P. Gignac, President of Sidbec-Dosco Ltd.	Brinco Limited
Robert H. Jones President and Chief Executive Officer of Investors	Anglo-American Corp. of Canada Ltd.
W. Earle McLaughlin, Chairman and President of The Royal Bank of Canada	The Royal Bank of Canada Genstar L'Air Liquide Algoma Steel Corp. Ltd. Canadian Pacific Ltd.
A. Deane Nesbitt, President and Chief Executive Officer of Nesbitt, Thomson and Company, Limited	TransCanada Pipelines Ltd. Goodyear Tire & Rubber Co. of Canada Ltd. Dominion Scottish Investments Ltd. Manufacturers Life Insurance Co. Pembina Pipe Line Ltd. CHUM Ltd.
Paul Britton Paine, Q.C. Chairman and President of Montreal Trust Company	
Jean Parisien,* Senior Deputy Chairman of Power Corporation	Quebec Télé-Capital Ltd. (Vice-Chairman) Canadian Pacific Ltd.
Claude Pratte, Q.C. Counsellor-Létourneau, Stein Marseille, Delisle & LaRue, Québec City	Canadian International Paper Co. Domco Industries Ltd. National Life Assurance Co. of Canada Quebec-Telephone The Royal Bank of Canada

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* - Died February 20, 1976.

Hon. John R. Robarts, P.C., C.C., Q.C., Partner of Stikeman, Elliott, Robarts & Bowman, Barristers and Solicitors, Toronto, Ontario	Reed Shaw Stenhouse Ltd. (Chairman) Abitibi Paper Co. Ltd. Bell Canada Canadian Imperial Bank of Commerce Commonwealth Holiday Inns of Canada Ltd. Metropolitan Life Insurance Co. Reed Shaw Osler Ltd. Heitman Canadian Realty Investors
Robert C. Scrivener, Chairman of Northern Telecom Limited	Canadian Imperial Bank of Commerce
Peter N. Thompson, Deputy Chairman of Power	Warnock Hersey International Ltd. Petrofina Canada Ltd. The Royal Bank of Canada
William I.M. Turner, Jr., President and Chief Executive Officer of Consolidated-Bathurst Limited	Celanese Canada Ltd. Norcen Energy Resources Limited

Accounting Policies

We believe that Power Corporation and its subsidiary companies have adopted conservative accounting policies and that their financial statements are in accordance with generally accepted accounting principles. The only occasion in which the auditors qualified their opinion on any company in the PCC family was an occasion when the company was too conservative for generally accepted principles. In 1972 and 1973 CSL credited capital gains directly to retained earnings and did not show them in the profit statement.

In the early 1960's Laurentide Financial's accounting methods were less than conservative, in company with most of the rest of the industry. At this stage PCC shared control with the operating management. In 1965, when PCC took full direction of the company, they changed to the most conservative accounting policies in the industry.

Interests of Minority Shareholders

The interests of minority shareholders sometimes differ from those of a company's controlling shareholders. This report mentions several instances where such differences have occurred; they are summarized below, along with our comments.

i) In the opinion of some critics, some acquisitions appear to have been made in order to extend Paul Desmarais' power. In these instances the investment return promises to be poor for a long time and minority shareholders might question whether their interests are being served. Examples include the purchase of Imperial Life, the purchase of Investors by Imperial Life and by Power Corporation, the purchases of Montreal Trust by Investors (particularly the second one in 1972), and the purchase of non-voting Argus shares by Power even though voting control was not available. The purchase of Great-West Life by Investors might also be included.

   However, such criticism involves a large element of hindsight. All the financial companies were popular investments with rising market prices at the time Paul Desmarais took a position. It is easy for historians to point out an error in judgment; it is less easy to be sure of the motives at the time of purchase. The Argus purchase can be defended on grounds of the quality of assets acquired, even if income at first is relatively low.

ii) The acquisition of Investors by Imperial Life was not only of questionable benefit to Imperial's shareholders, but was extremely unusual in that it involved the purchase by a life insurance company of 30% of another company. However, the transaction was perfectly legal.

iii) In 1972, when Investors Group decided to purchase Montreal Trust, a broker assembled a group of shareholders, most of them large ones, who were prepared to sell at a price above the market. Other shareholders had very little opportunity to participate. This manoeuvre was legal at the time, but under current regulations all shareholders must be given the same opportunity to sell when a large bid is made.

iv) Consolidated-Bathurst's 1973 offer to minority shareholders of Dominion Glass was criticized on the grounds that the price was less than Consolidated-Bathurst had paid to Power Corporation shortly before. There has also been criticism because no dividends have been paid since 1971. We do not think either criticism is justified. (See report on Dominion Glass, page 30 and page 127).

v) When the number of shares in minority hands declines, activity in the stock decreases, brokers cease to analyse it, and the price tends to be lower than that of more active stocks. Montreal Trust and Imperial Life are two companies whose stock is undervalued for this reason. Under the circumstances, it is difficult to see how such a devaluation could have been prevented.

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C. Sources of Capital, Profitability and Efficiency: Power Corporation and Its Subsidiaries and Affiliates

The following tables depict some aspects of the profit and investment performance of Power Corporation and its major non-financial subsidiaries and affiliates. Although much of the data relating to affiliates covers periods both before and after the acquisition of control by Power, they do not lead to any clear-cut conclusions about the impact of Power Corporation's ownership on the operations of its holdings.

Two "breaks" in the Power profit data series (in 1969 and 1973) are due to changes in the basis of accounting and render any comparison with the general trends of the economy liable to faulty interpretation.

Also attached without any evaluative comment are data pertaining to the capital structure of Power Corporation.

Earnings and Dividends

The table below lists earnings and dividends of Power Corporation since 1967:

TABLE IV

EARNINGS AND DIVIDENDS

Year	Earnings	Dividend
1967	$0.44	$0.44
1968	0.50	0.44
1969	0.86	0.44
1970	0.50	0.33
1971	0.53	0.05
1972	1.02	0.20
1973	1.85	0.225
1974	2.29	0.375
1975	2.16	0.55

The earnings are shown before extraordinary items and after allowance for potential dilution. The dividend rate in 1976 is $0.60.

From 1969 onwards the earnings of subsidiary companies were accounted for on an equity basis. Starting in 1973 the earnings of Consolidated-Bathurst were accounted for on the same basis. Figures for the periods 1967-8, 1969-72 and 1973-5 therefore cannot be compared with each other.

The actual cash income of the parent company is lower than shown by the figures, because not all the income of subsidiaries is paid to the parent in dividends. In fact before the sale of securities to CSL in 1972, the cash income of Power Corporation did not cover dividends paid.

Capital Structure and Financing

At December 31, 1975 PCC's permanent capital consisted of:

		($000)
Long-term debt		118,689
510,560 shares 4¾% First Preferred	25,528	
4,070,065 shares 5% Convertible Second Preferred	48,841	
1,389,904 shares 6% Participating Preferred	6,950	81,319
10,567,768 shares Common	59,305	
Retained earnings	219,362	278,667

An examination of comparable figures for the past nine years reveals the major changes in the capitalization.

	Long-term Debt	Preferred	Common	Retained Earnings
	-----------------	$ millions	-----------------	
1967	4.7	35.3	12.7	86.4
1968	27.1	84.4	12.7	112.1
1969	18.4	84.3	12.7	118.4
1970	20.9	84.0	56.3	134.2
1971	75.9	84.0	56.3	140.9
1972(1)	73.6	83.9	56.4	128.4
1973	65.8	83.8	58.3	154.3
1974	58.2	82.4	58.5	191.8
1975	118.7	81.3	59.3	219.4

Note: (1) CSL is consolidated from 1972 onwards.

The major items of financing have been:

i) An issue of convertible preferred shares in exchange for shares of Trans-Canada Corporation Fund, and the assumption of TCCF's debt, in 1968.

ii) An issue of 1,093,478 common shares at $11.50 for Investors shares, and 2,883,995 common shares at $10.75 for Consolidated-Bathurst shares in 1970.

iii) An issue of $60 million to finance the purchase of minority shares of Canada Steamship Lines in 1971.

iv) An issue of $70 million to finance the purchase of Argus shares in 1975.

Capital Expenditures By PCC Companies

Each report on Power's major subsidiaries includes details of their capital expenditures since Power Corporation's acquisition of control and, in some instances, over longer periods of time.

In summary, the capital expenditures incurred by the major operating groups during recent years are as follows:

TABLE V

CAPITAL EXPENDITURES

	1970	1971	1972	1973	1974	1975
	------------$ millions					-----------------
Consolidated-Bathurst	22.9	10.5	15.0	23.4	29.5	44.5
Dominion Glass	20.9	7.2	4.0	6.8	7.5	5.2
Canada Steamship Lines	5.9	15.0	25.4	8.2	15.0	19.4
Financial Service Cos.	2.5	3.4	2.9	2.5	6.1	N/A

These expenditures are compared below to specific industry or sectoral figures compiled by Statistics Canada.

a. Consolidated-Bathurst

Consolidated-Bathurst's share of total capital expenditures by the paper industry from 1969 to 1974 has been:

1969	1970	1971	1972	1973	1974	1975
6.8%	4.3	2.0	3.3	5.8	5.3	7.3

Comment

After the heavy expansion program of the middle and late 1960's, Consolidated-Bathurst's capital expenditures were reduced in the early 1970's due to financial difficulties. Hence the smaller percentage relative to overall industry figures.

b. Dominion Glass

Dominion Glass expenditures as a percentage of capital expenditures by the manufacturing sector have been:

1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
0.230%	0.058	0.130	0.303	0.300	0.648	0.240	0.136	0.185	0.151	0.096

Capital expenditures in 1965 and 1966 - the two years prior to the 1967 purchase of control by Consolidated-Bathurst and Power Corporation - averaged 0.140% of total capital expenditures in the manufacturing sector. In the 9 years after Power Corporation acquired control, Dominion Glass capital expenditures averaged 0.243% of the total Canadian manufacturing figure - an increase of 74% over the average for 1965 and 1966.

c. Canada Steamship Lines (CSL)

CSL's expenditures as a percentage of total capital expenditures in the Canadian water and motor transportation industry have been:

1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
9.2%	9.5	6.9	5.5	6.6	2.8	6.8	9.7	2.8	4.2	7.2

In the 6 years before Power Corporation acquired full control, CSL capital expenditures averaged 6.7% of total Canadian expenditures, whereas in the subsequent 5-year period, the average was 6.1%. The change is not significant.

Profit Record and Efficiency of Subsidiaries and Affiliates

The efficiency and productivity of a company can best be assessed by an examination of its profit record in relation to the industry in which it operates. Below we compare the profit performance of Power Corporation's major holdings with that of the industries to which they belong.

TABLE VI

PROFITS OF CONSOLIDATED-BATHURST

COMPARED TO PAPER INDUSTRY

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
CB Profits ($Mil.)	16.9	20.8	17.8	12.6	10.6	6.6	0.4	7.6	19.9	47.7	32.6
Profits of paper & allied products sector ($Mil)	254	276	157	154	213	124	85	89	320	685	349
Per cent of CB profits to total	6.7	7.5	11.3	8.2	5.0	0.5	0.5	8.5	6.2	7.0	9.3

Comment

The peak year was 1967, the first year after the merger of Consolidated Paper and Bathurst. Problems resulting from earlier managerial decisions caused the dip in 1968-71. Under Power Corporation's control, relative profits have recovered.

TABLE VII

PROFITS OF DOMINION GLASS COMPARED

TO TOTAL MANUFACTURING INDUSTRY

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
DG profits ($Mil)	1.59	1.57	0.23	2.00	2.60	2.74	(1.31)	1.98	1.34	3.73	4.88
Profits of total Cdn. man. sector ($Mil)	1,187	1,904	1,680	1,906	2,087	1,583	2,134	2,622	3,732	4,848	4,316
Per cent of DG profits to total	0.088%	0.082	0.014	0.105	0.125	0.173	N.M.	0.076	0.036	0.077	0.113

Comment

In the 1965-67 period, which includes the year (1967) when Power Corporation acquired control, Dominion Glass profits averaged 0.061% of the manufacturing sector's total after-tax profits. In the 1968-75 period (excluding the 1971 strike year), the average was 0.101%. However, Dominion Glass' share of total manufacturing profits was lower in the 1972-75 period than in 1968-70. This decline may reflect the improved market share and competitiveness of Consumers Glass Co. Ltd. during those latter years.

TABLE VIII

PROFITS OF CANADA STEAMSHIP LINES

COMPARED TO TRANSPORTATION INDUSTRY

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
CSL earnings from operations	24.0	23.0	21.0	22.5	25.7	28.0	31.1	27.1	34.2	30.3	N/A
Profits of total transportation sector ($Mil)	253	222	193	206	199	209	283	317	378	422	416
Per cent of CSL profits to total	9.5%	10.4	10.9	10.9	12.9	13.4	11.0	8.5	9.0	7.2	N/A

Comment

We have used pre-tax and pre-interest operating profits for CSL to avoid distortions in net profits in 1972-74 caused by its status as a holding company. Bearing in mind CSL's non-recurring problems in 1972 and 1974, we do not consider the figures sufficiently conclusive to indicate a trend.

Concluding Comment

The terms of reference of the Royal Commission suggest that the Canadian government regards a certain degree of corporate concentration as both desirable and inevitable. At the same time, however, the Commission was created in response to a widespread concern that present levels of concentration in Canada give "Big Business" excessive power.

It is not the function of this report to comment on the economic and social tradeoffs of corporate concentration or to pass judgment on the degree of power wielded by Power Corporation. Our purpose has been to provide facts that will help the Commission draw its own conclusions. However, we feel that some comment on the objectives of the company may be appropriate.

Throughout its development Power Corporation has not ignored the impact of its operations on society, but has regarded fulfillment of "social responsibilities" mainly as a means to maximize profit growth. A company which does not act as a "good corporate citizen" (a term the meaning of which is constantly evolving) may find itself the target of society's adverse reaction.

Beyond the objective of profitability, the controlling shareholders of Power have at times displayed additional interests which differed from those of the minority shareholders. In the early stage of development (1925-1930), the controlling shareholders were interested in increasing the income of Nesbitt, Thomson and Company Ltd., by establishing and solidifying underwriting connections. From 1930 to 1968, on the other hand, the interests of controlling and minority shareholders appear to have been essentially the same. As for Paul Desmarais, his objectives are more difficult to identify. Many of his business moves have served to increase his influence without necessarily resulting in increased profitability.

Throughout most of Power's development the controlling shareholders have held a majority of the voting shares but a minority of the total equity. Because otherwise equal shares have different voting rights, a minority of shareholders has been in a position, if it chose, to act against the wishes of the remaining shareholders. Power Corporation changed the capital of Laurentide to correct this situation but has made no similar move in its own case.

Desmarais has been very reserved in the use of his power. He has used the very large assets managed by Power Corporation's companies to purchase other financial companies but has made no attempt to build a coordinated financial empire. In the case of his communications interests Desmarais sold some to avoid public criticism. He generally seems very conscious of the various centres of influence in society - government, labour and business - and cultivates personal friendships with important political leaders in the two major political parties. More than most businessmen, he is aware that in a direct confrontation, political power exceeds the power of capital.

APPENDIX I

POWER CORPORATION OF CANADA,LIMITED

CONDENSED BALANCE SHEET

Year ended December 31st, 1966-75

($ Millions)

	1975	1974	1973	1972	1971*	1970	1969	1968	1967	1966
Current Assets	80.0	90.0	87.8	51.0	1.3	5.0	9.3	15.9	7.7	17.2
Investments	375.2	288.5	255.7	246.7	248.3	188.3	144.2	90.3	16.8	38.3
Other (incl. unquoted secs.)					133.0	133.5	116.1	159.7	140.6	121.4
Depreciated Fixed Assets	124.1	116.5	114.3	125.0	-					
	579.3	495.1	457.8	422.7	382.7	326.8	269.6	265.8	165.0	176.9
Current Liabilities	56.6	57.8	44.2	34.3	22.1	27.9	32.5	25.9	25.8	28.0
Long-term debt	118.7	58.2	65.8	73.6	75.9	20.9	18.4	27.1	4.7	5.8
Deferred income tax	38.1	36.6	36.7	34.7						
Ins. Losses & Deferred Items	5.8	5.8	6.0	2.5						
Pfd. of Sudsidiary	0.2	4.1	8.8	8.9	3.5	3.5	3.5	3.5		
Capital Stock - Pfd.	81.3	82.4	83.8	83.9	84.0	84.0	84.3	84.4	35.3	35.8
- Common	59.3	58.5	58.3	56.4	56.3	56.3	12.7	12.7	12.7	12.7
Retained Earnings(1)	219.4	191.8	154.3	128.4	140.9	134.2	118.4	112.1	86.4	94.6
	579.3	495.1	457.9	422.7	382.7	326.8	269.6	265.8	165.0	176.9

* Prior to merger with Canada Steamship Lines
(1) Includes investment reserve.

APPENDIX II

POWER CORPORATION OF CANADA, LIMITED

CONDENSED INCOME STATEMENT

Year ended December 31st 1966-75

($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	6 Mos. 1966
Gross Revenue	293.1	223.5	242.8	170.0	14.1	14.6	15.6	11.5	7.6	4.[illegible]
Operating expenses	254.0	196.5	210.8	145.2	1.3	1.8	1.9	1.4	1.3	0.6
Operating Profits	39.1	27.0	32.0	24.8	12.8	12.8	13.7	10.2	6.3	3.4
Add Income from Investments	5.2	4.7	3.9	3.6						
Less Depreciation	12.1	11.6	11.9	12.4						
Long-term debt interest	10.0	6.6	6.3	6.9	2.7	3.1	3.3	2.0	1.6	0.8
Income tax-current	5.8	3.7	1.9	0.4						
-deferred	1.9	(0.4)	2.4	0.2						
Misc.	0.2	0.2	0.4	0.5						
Sub Total	14.3	9.9	13.0	8.1						
Add. Share Earnings of Unconsolidated Subsidiary	21.5	28.0	18.0	9.5						
Net Income Operations	35.8	37.9	31.0	17.6	10.0	9.7	10.4	8.1	4.6	2.5
Extraordinary items	2.8	7.3								
Net Income	38.6	45.2	31.0	17.6	10.0	9.7	10.4	8.1	4.6	2.5
Common Stock										
Earnings Per Share	2.69	2.87	2.29	1.20	0.53	0.50	0.86	0.69	0.50	0.44
Dividends	0.55	0.375	0.225	0.20	0.05	0.33	0.44	0.44	0.44	0.44
Price Range-High	10½-	13.00-	14.3/8-	14 1/8-	6¼-	11 7/8-	15¼-	12½	12 7/8-	
-Low	7½	7½	9¼	5 1/8	4.20	4.60	10 3/8	6¼	7 1/8	

APPENDIX III

POWER CORPORATION OF CANADA, LIMITED
CONDENSED STATEMENT OF SOURCE & APPLICATION OF FUNDS
Year ended December 31st 1969-75

	1975	1974	1973	1972	1971*	1970	1964
SOURCE:							
Net Income (after div.)	35.0	41.5	27.2	13.7	10.0	9.7	10.4
Depreciation	12.1	11.6	11.9	12.4	-	-	-
Deferred Income Tax	1.9	(0.4)	2.4	0.2	-	-	-
Disposal of Assets & Securities	6.9	5.2	47.5	33.9	9.5	44.2	37.3
Issues of Equities	0.2	-	4.1	0.1	-	-	-
Issue of Long-Term Debt	71.8	-	-	-	60.0	2.5	(8.8)
Less Engs. Not Rec'd. in Cash	15.0	25.6	14.3	7.2	7.3	6.3	5.9
	112.8	32.3	78.8	53.2	72.2	50.1	33.1
APPLICATION:							
Additions to Fixed Assets	19.4	15.1	8.2	25.5	-	-	-
Redemption Debt	11.5	7.6	7.8	10.1	5.0	-	-
Redemption Equity	3.9	0.7	0.6	0.1	-	0.2	0.1
Cost of Securities	76.4	14.0	29.7	3.9	60.1	41.8	39.1
Dividends Paid	6.6	4.5	2.7	2.4	4.9	7.5	7.3
Misc.	3.9	1.7	2.8	1.6	0.1	0.4	(0.3)
	121.6	43.6	51.8	43.6	70.2	49.8	46.2
Change of Working Capital	(8.8)	(11.4)	27.0	9.6	(2.0)	(0.3)	(13.1)

APPENDIX IV

SMA (SOCIETE DE MATHEMATIQUES APPLIQUEES) INC.

Balance Sheet - Selected Statistics

($000)

	1975	1974	1973	1972	1971	1970
Current Assets						
Cash	-	113	78	84	-	-
Accounts Receivable	1,377	1,093	951	581	684	1,261
Feature film	-	-	1,616	1,230	-	-
Other	168	143	137	103	162	310
	1,545	1,349	2,782	2,098	846	1,571
Fixed assets	957	711	642	543	731	1,052
Other assets	252	288	21	45	50	423
	2,754	2,348	3,445	2,686	1,627	3,046
Current Liabilities						
Due to parent company	312	4,448	2,816	1,078	-	-
Other	1,192	958	918	676	664	1,873
	1,504	5,406	3,734	1,754	664	1,873
Long-term debt	6,566	1,234	1,368	1,324	850	55
Capital stock	1,685	1,685	1,685	1,685	1,675	1,044
Deficit	(7,001)	(5,977)	(3,341)	(2,077)	(1,562)	73
	2,754	2,348	3,445	2,686	1,627	3,046

SMA (SOCIETE DE MATHEMATIQUES APPLIQUEES) INC.

Selected Statistics - Income & Expenses

($000)

	1975	1974	1973	1972	1971	1970
Revenues	6,792	3,535	3,265	3,059	4,002	5,184
Expenses						
Depreciation - fixed assets	204	119	94	85	133	176
Feature film	-	-	-	-	277	245
Interest charges	43	423	134	68	61	38
Administrative	7,923	4,285	3,677	3,421	4,547	4,924
	8,170	4,827	3,905	3,574	5,018	5,383
Net Loss	(1,378)	(1,292)	(640)	(514)	(1,016)	(200)
Extraordinary item	355 (5)	(1,343) (4)	(481) (3)	-	(612) (2)	(58) (1)
	(1,023)	(2,635)	(1,121)	(514)	(1,628)	(258)
Loss Per Share	(0.29)	(0.76)	(0.32)	(0.15)	(0.36)	(0.09)

NOTES: Extraordinary items

(1) Leasehold improvements and moving costs.

(2) Write-off of investments in a new company:

Write-off of investments in a new company:	100
Undepreciated cost of productions of feature films	138
Undepreciated costs of second generation computers	180
Conversion of computer programs	136
Disposal of assets	58
	612

(3) Direct expenses incurred for the installation of a new computer.

(4)

Direct expenses related to an IBM computer installation (net)	1,230
Loss on disposal of subsidiaries	113
	1,343

(5) Shareholders waiver of accrued interest as at December 31, 1974.

PART TWO

THE ASSOCIATED COMPANIES

Canada Steamship Lines Limited
Consolidated-Bathurst Limited
Dominion Glass Company Limited
Laurentide Financial Corporation
The Imperial Life Assurance Company of Canada
The Investors Group
Great-West Life Assurance Company
Montreal Trust Company

CANADA STEAMSHIP LINES, LIMITED

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CANADA STEAMSHIP LINES, LIMITED

DESCRIPTION OF COMPANY

Canada Steamship Lines, Limited (CSL) was purely an operating company until June 1972. Since January 1976 it has become an operating division of Power Corporation of Canada, Limited. In between these dates it was a combination of an operating company and an investment holding company, for tax reasons which are described in the report on PCC.

In this description of the company we will confine ourselves to the operating assets.

Water Transportation

The company is the largest inland water carrier in Canada. Traditionally, the principal cargoes carried have been iron ore, coal and grain. The company's fleet of 32 ships comprises eleven self-unloaders, 12 bulk freighters, two specialized self-unloading cement carriers and seven package freight carriers. Two of the package freight carriers have been recently modified for ocean trade.

Self-unloaders have gained great importance over the past ten years because of the high cost of shore unloading installations. The eleven self-unloaders represent 41% of the total trip capacity of the Canadian self-unloader fleet operating on the Great Lakes while the ten bulk carriers of the company account for 16% of the total trip capacity of the Canadian bulk carrier fleet.

Shipbuilding

Canadian Shipbuilding & Engineering Limited, a wholly owned subsidiary of CSL, builds ships for the company and for other domestic and foreign shipowners, at Collingwood and Thunder Bay, Ontario. Operations include ship repairing, refitting and conversion, drydocking operations, general engineering and machinery repair work.

Land Transportation

The Land Transportation Division of the Company is divided into three groups of companies: Kingsway Transports Limited - truck operations; Voyageur Inc. and Voyageur Colonial Limited - bus operations; and John N. Brocklesby Transport, Limited - heavy haulage and crane operations.

Truck Operations: Kingsway Transports Limited, a wholly owned subsidiary of the company, is a major Canadian common carrier operating over 2,000 units of rolling stock and 41 terminals, three of which are located in the United States. It provides the following services: intercity movement of general commodities; inland sufferance warehousing; fleet maintenance; distribution of truck parts and accessories; and contract transportation. Major terminals are located in Montreal, Toronto, Winnipeg, Calgary and Vancouver.

Kingsway has recently introduced COBIS (Computerized Online Billing Information System) to monitor its extensive route structure on a 24-hour basis. All the company's terminals are connected to a central computer, which provides data on shipments and vehicle scheduling.

Bus Operations: Voyageur Inc. and Voyageur Colonial Limited, wholly owned subsidiaries of the company, together comprise the largest intercity bus system in Eastern Canada, accounting for approximately 80% of the Quebec intercity passenger market and 40% of the Ontario market. These companies offer regular intercity passenger transportation and parcel express service in Ontario and Quebec as well as charter and tour services in these provinces and to various points in the United States.

These companies operate over 375 modern, air-conditioned coaches, of which approximately 60% are leased. Major terminals are located in Montreal, Ottawa, Quebec City, Val d'Or and Rouyn.

Heavy Haulage and Crane Operations: John R. Brocklesby Transport, Limited, a wholly owned subsidiary of the company, operates mobile cranes, mainly within a 50-mile radius of Montreal, and provides heavy machinery moving and specialized trucking services.

The company operates over 300 pieces of specialized equipment including tractors, trucks, trailers, floats, tanker trucks, steering dollies and cranes.

HISTORY OF THE COMPANY

Prior to PCC Control

Canada Steamship Lines, Limited was incorporated by Dominion Charter in 1913, as an amalgamation of several existing companies to create a single company operating steamships between the Lakehead and the lower St. Lawrence Valley.

Shipbuilding was added with the acquisition of Davie Shipbuilding Ltd. in 1925. The present two shipyards were acquired in 1945 through the purchase of Canadian Shipbuilding & Engineering Co. Ltd.

Miscellaneous other businesses were acquired to support the shipping business, including two grain elevators and resort hotels at Murray Bay and Tadoussac on the lower St. Lawrence (now sold).

Trucking was added in the early 1940's with the formation of Kingsway Transports Ltd., which acquired an existing carrier. In the early 1950's Kingsway Transports was enlarged by acquisition, and became a trucking concern of national scope and importance. By 1960 its routes stretched from Quebec to Vancouver, and across the border to many U.S. cities. Brocklesby Transport was acquired in 1958.

The opening of the St. Lawrence Seaway in 1959 revolutionized the inland shipping industry. CSL led the industry in building larger ships and in converting its older ones, as shown by a comparison of its fleet in 1957 and 1967.

	1967 No.	1967 Short Tons	1957 No.	1957 Short Tons
Bulk carriers	18	427,406	33	332,986
Self-unloaders	7	122,810	4	21,100
Package freighters	10	78,513	21	77,119
	35	628,729	58	431,205

In 1967, 21 of the vessels, with 65% of the tonnage, had either been built or had been converted to self-unloaders, in the previous ten years. On average its ships were substantially younger than those of its competition and had 60% larger carrying capacity.

Passenger business grew smaller and CSL retired from this field in 1965. The resort hotels were sold in 1968.

The main structure of CSL's operations in 1968 was very similar to that of today except for the acquisition of Provincial Transport in 1969, and the sale of Davie Shipbuilding in 1976.

Power Corporation had three representatives on the board of directors from 1963-68, but played no part in the management of the company.

Operations: 1969 to Present

In 1969 CSL acquired Provincial Transport from Power as part of the transaction in which PCC became the majority shareholder (for discussion of the price paid, see page 76). Provincial Transport is the basis of the present bus operations; it had originally been bought by Mr. Desmarais in 1960 and had been controlled by him, through a series of holding companies, ever since.

In November 1972, in an attempt to expand its trucking operations and offer improved service from Canada to the U.S. midwest and south, CSL made a bid for the purchase of all the shares of Strickland Transportation Company for $14 million plus $4.4 million of leased assets. Strickland is a family-owned company, and has no ties with Power Corporation. The transaction had to be approved by regulatory authorities within two years. The U.S. authorities approved the transfer, but subject to onerous restrictions on routes. Canada Steamship decided not to proceed with the acquisition on these terms.

Between 1970 and the present there have been several minor acquisitions of operating companies, one of which was subsequently sold. There is nothing significant in any of these transactions and we have not listed them individually.

CSL's operating results from 1965 to 1974 are included in the summary of financial figures in Appendix II, p. 80. 1975 results are not available, as they ar integrated into Power Corporation's own figures. It is difficult to draw any

conclusion from the results because the company does not provide a breakdown between the results of trucks, shipping, buses and shipbuilding. We believe that in a normal year water transportation and buses have been the largest contributors to profit, followed by shipbuilding, trucking and miscellaneous operations in that order.

CSL's earnings from operations, before depreciation, interest and taxes, are shown in the table below.

TABLE I

CSL'S EARNINGS FROM OPERATIONS
(millions)

1965	$23.8	
1966	22.3	Road and dock strikes
1967	20.6	Shipping strike
1968	22.2	Seaway strike
1969	25.5	Acquisition of Provincial Transport
1970	27.4	
1971	30.4	
1972	26.2	Major shipbuilding loss
1973	33.5	
1974	29.3	Shipping strike
1975	40 approx.	(Not reported separately from PCC)

The progression of earnings is satisfactory, after allowing for the items noted.

Sale of Davie Shipbuilding

The competitive position of Canadian shipbuilders was eroded as other nations, especially Japan, built up their capacity in the 1950's and 1960's. A subsidy program started by the Federal Government in 1961 allowed Davie to continue operating profitably in the 1960's but the basic problems of high Canadian costs still remained. The Collingwood yard is partially protected by the specialized nature of the lakers it builds.

In 1970 Davie signed a contract for three 80,000 ton tankers on terms that resulted in a major loss ($7.1 million reported in 1972 and probably additional unreported losses in 1973 and 1974). The amount of the loss was influenced by problems in labour relations.

Union leadership in the plant is highly politicized. The labour force also assumed that a wealthy corporation like Power Corporation could afford to pay high wages, even if Davie Shipbuilding itself lost money.

In February 1976, Davie was sold to a new company owned by four former executives of Marine Industries Ltd. An ownership group which would live

locally, and has no other interests, should have a better chance of solving the labour problems. It is interesting to note that being a large, powerful company is sometimes a disadvantage.

The price paid was not reported officially. Unofficial reports indicate it was in the vicinity of $10 million, close to book value, with a substantial portion in cash and the rest in preferred shares of the purchaser.

CSL as a Holding Company

In June 1972 CSL purchased investments from PCC having a total value of $145.2 million based on market price for listed securities and book value for the Gesca income debenture, the only unlisted security. CSL paid $70.5 million in cash and $74.6 million by issuing to PCC a combination of 9½% notes, promissory notes and subordinated debentures due at various times up to 1992. CSL used cash on hand and obtained a $50 million bank loan to pay the cash portion of the transaction.

This transaction is discussed in more detail on page 26 of the Power Corporation report. Its purpose was to provide tax benefits for the combined PCC-CSL organization. There were no minority common shareholders of CSL at the time and the security of other creditors and of the preferred shareholders of CSL was not really affected. In any case the subsequent (1976) merger between PCC and CSL has made such a question hypothetical.

In December 1975 CSL redeemed its 1,834,000 outstanding preferred shares at their par value of $6.25. This left the common shares, 100% owned by PCC, as the only outstanding equity. Under section 88 (1) of the Income Tax Act (Canada) it now became possible to merge the operations of the two companies without any tax liabilities. This has been done. CSL continues as an operating division of PCC.

SUMMARY OF POWER CORPORATION

TRANSACTIONS IN CSL SHARES

(This section discusses PCC's purchase of CSL from the viewpoint of the CSL shareholders. For a consideration from the viewpoint of PCC, see the study on PCC page 27).

In 1963 CSL had 2,538,900 common shares and 1,834,000 preferred shares outstanding (adjusted for a two-for-one split in May 1964). The common shares and the preferred shares had one vote each. Subsequently 400,000 common shares were issued in 1969 in part payment for the purchase of Provincial Transport and a total of 101,000 common shares were issued at various dates upon exercise of options granted to management. At the end of 1974 there were 3,040,000 common shares and 1,834,000 preferred shares outstanding.

PCC bought 300,000 common shares (23.6%; this was 600,000 shares after the split) in 1963 in a private sale from Algoma Steel, formerly the largest

shareholder. Purchases in the open market, combined with the purchase in July 1968 of 313,000 common and 591,400 preferred shares from Commercial Trust brought its holdings at December 31, 1968 to 1,101,800 common (42.5%) and 939,840 preferred (51.2%).

In March 1969 PCC sold Provincial Transport to CSL for $17,820,000. Payment was $3,820,000 in cash and 400,000 treasury shares valued at $35. This brought PCC's share of the equity and of the voting power over 50%.

The price paid for Provincial Transport was determined in an independent valuation by Michael Breber, which substantially confirmed CSL management's own assessment of a fair price. It was $11,899,792 in excess of Provincial Transport's net assets, which were carried at cost except for certain assets which had been appraised by Canadian Appraisal Company Ltd. in 1960.

A bus operation fitted naturally into a transportation company. Although reported profit figures do not break out the results of the buses separately, we understand it has been a very successful acquisition from the viewpoint of CSL.

On September 28, 1971, Power Corporation made an offer to purchase for cash at $40 all the common shares of CSL it did not own. This price represented a premium of 30.6% over the last sale prior to the offer of $30 5/8 and equalled the highest price at which the stock had ever sold in the past. When the offer expired PCC owned 99.6% of the shares and under the provision of the Canada Corporations Act it compulsorily acquired the residual shares.

The largest minority holding prior to this purchase was 599,912 shares held by Algoma Steel. Mr. D.S. Holbrook, Chairman and President of Algoma, commented on the offer in the 1971 Algoma Annual Report: "A favourable offer for these shares at $40 per share was accepted...."

Although Power now owned 100% of the common shares it did not have 100% of the votes because of the minority holdings of the preferred shares. Subsequent purchases in the open market increased its holdings of preferred shares to 69% of the total by the end of 1974, leaving less than 570,000 held by other investors. It continued this program in 1975. In December 1975 CSL called all the preferred shares at the redemption price of $6.625, a 5% premium over their par value. This compares with an average price of approximately $4.75 and a maximum price of $5.87½ that they had traded at in the market place in the previous eight years. The effect of this redemption was to leave PCC as the sole owner of the company.

MARKET SHARE AND PRICING

Water Transportation

CSL has about 23% of the Canadian Great Lakes Fleet. It is approximately the same size as Upper Lakes Shipping Limited. The remaining fleets are divided among 11 companies. CSL has approximately 40% of the capacity in modern self-unloading ships. The majority of the customers are large corporations

or government bodies, including the Canadian Wheat Board, Steel Company of Canada, Ontario Hydro, Canada Cement, etc. Prices are competitive and are not regulated.

Trucking

CSL is believed to be the third largest trucking organization in Canada, after CP and CN, with about 5% of the market. Licenses to operate are granted by Provincial bodies and apply for specific routes. Sufficient companies hold licenses on all main routes to ensure a competitive price structure. Prices must be publicly posted in all provinces and must be approved in most by the Highway Transport Boards.

Buses

CSL is believed to be approximately equal in size to Greyhound Lines of Canada Ltd., and holds approximately 25% of the Canadian market. Licenses to operate specific routes are granted by Provincial Boards and normally constitute an effective monopoly. Prices are consequently regulated by the provinces.

Shipbuilding

CSL was believed to be the largest shipbuilding and repairing company in Canada prior to the sale of Davie Shipbuilding. Competition for construction of ships comes largely from other countries and other Canadian yards; and the Canadian Government grants subsidies to encourage construction of ships in Canada.

CAPITAL EXPENDITURES

CSL's capital expenditures on fixed assets on the past 10 years have been reported as follows:

TABLE II

CAPITAL EXPENDITURES

BY CSL 1966-1975
(millions)

1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
$16.1	$11.9	$10.2	$14.1	$7.4	$17.0	$25.4	$8.2	$15.0	$19.4

The figures for 1966 to 1969 were reported on a net basis after deducting fixed assets that had been sold.

EMPLOYEES

The number of CSL employees in 1968, the year PCC obtained majority control, in 1970 and in 1974, the latest year for which figures are available, is given in the table below.

TABLE III

NUMBER OF EMPLOYEES

	Average Number of Employees
1969	7,200
1970	6,884
1974	7,541

MANAGEMENT

Since Power Corporation acquired control in 1969 it has made no management changes which did not fit into the normal pattern of replacing people who retired or died. It has introduced two PCC employees into the top management as opportunities arose.

T.R. McLagan had joined the company in 1951 as President. He remained a powerful influence until his retirement from the post of Chairman of the Board in November 1970, at age 73.

J.W. McGiffin became President and Chief Executive Officer in 1966. In 1970 he succeeded T.R. McLagan as Chairman of the Board, and remained Chief Executive Officer. Louis Desmarais moved over from PCC to succeed him as President and in 1971 became Chief Executive Officer.

In 1973, J.W. McGiffin became Deputy Chairman, Louis Desmarais Chairman, and Paul Martin moved from PCC to become President. He still fills that position today and is now Chief Executive Officer.

APPENDIX I

CANADA STEAMSHIP LINES LIMITED

SELECTED STATISTICS - BALANCE SHEET

($ Millions)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Current assets	89	84	48	60	46	30	38	30	27	30
Other assets	188	163	161	11	12	14(1)	3	4	3	2
Fixed assets	251	244	262	240	228	226	189	189	182	172
less depreciation	134	130	137	127	120	114	99	101	98	95
	117	114	125	113	108	112	90	88	84	76
	394	361	334(4)	183	166	156	131	122	114	108
Current liabilities	55	43	32	26	19	16	17	15	12	14
Due to parent company	75	75	75(4)							
Long-term debt	54	62	69(4)	13	13	15(2)	1	1	1	1
Other	45	46	41	37	33	28	25	23	21	18
Shareholders' equity										
Preferred stock	11	11	11	11	11	11	11	11	11	11
Common stock	21	21	21	21	20	20(3)	6	6	6	6
Retained earnings	136	106	88	75	70	66	71	66	63	58
	168	138	120	107	101	97	88	83	80	75
Less preferred shares of subsidiaries	-3	-3	-3	—	—	—	—	—	—	—
	394	361	334	183	166	156	131	122	114	108

(1) Reflects note receivable of $7.5 million from sale of bus franchises.

(2) Reflects acquisition of Provincial Transport Debt of $13.4 million.

(3) Reflects issue of 400,000 shares of CSL for $14 million for acquisition of Provincial Transport Enterprises Ltd.

(4) Reflects acquisition of $145 million of assets from Power financed through note to parent company of $75 million and assumption on parent's bank loan of $50 million.

APPENDIX II

CANADA STEAMSHIP LINES LIMITED

SELECTED STATISTICS - CONSOLIDATED EARNINGS

($ Millions)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	196
Gross Revenues	223	243	170	141	144	167	129	138	127	138
Earnings from Operations	29**	34	26*	30	27	26	23	21	23	24
Share of Earnings - Subsidiaries	26	17	5							
Income from Investments	5	3	3	2	1	1				
	60	54	34	32	28	27	23	21	23	24
Interest	13	13	8	1	1	1				
Depreciation	12	12	12	12	11	11	9	9	8	7
Income Taxes	1	4		8	7	7	7	5	7	8
	26	29	20	21	19	19	16	14	15	15
NET INCOME	34	25	14	11	9	8	7	7	8	9
E.P.S.	$11.05	$7.86	$4.37	$3.39	$2.70	$2.50	$2.61	$2.33	$3.02	$3.2
Dividend paid - per common share				$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.2
Market Prices (high-low)			$40½- $39¾	$34½- $28	$29- $20	$37- $27½	$35¾- $23¼	$35- $23¾	$40- $28½	$38- $20¼

* Reflects write-off of $7.1 million in shipyard.

** Reflects eight week strike in water transportation division.

CANADA STEAMSHIP LINES LIMITED
CONDENSED STATEMENT OF SOURCES
AND APPLICATION OF FUNDS
Years Ended December 31
($ Millions)

	1974	1973	1972	1971	1970	1969	1968
SOURCES:							
Net (less non cash engs. of subs.)	16.1	10.8	9.6	10.9	8.6	8.1	7.4
Depreciation	11.6	11.9	12.4	11.7	11.5	10.9	8.8
Deferred income tax	(0.4)	2.4	0.2	3.0	3.3	1.9	2.6
Sale of assets & securities	5.1	44.0	1.8	2.0	1.4	-	-
Issue of debt & equity	1.7	-	53.1	2.8	1.5	-	0.1
Other*	(1.2)	(0.9)	86.6	0.6	0.6	1.1	0.4
	33.0	68.3	163.7	31.0	27.0	22.1	19.2
APPLICATION:							
Fixed assets	15.1	8.2	25.5	17.0	7.4	14.1	10.2
Investments & loans	0.6	8.0	(3.1)	(0.7)	(1.2)	2.7	(1.2)
Dividends	9.6	7.2	1.3	4.5	4.5	4.2	3.9
Long-term debt retirement	9.1	7.7	12.3	2.1	1.8	2.2	-
Acquisitions	4.7	13.2	145.2	0.4	1.7	3.8	-
	39.0	44.3	181.1	23.3	14.1	27.0	13.0
Working Capital Change	(6.0)	24.0	(17.3)	7.7	12.8	(4.9)	6.2

* - 1972 working capital of acquired subsidiary $13.0 million and issue of debt to parent company of $74.7 million.

CONSOLIDATED-BATHURST LIMITED

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CONSOLIDATED-BATHURST LIMITED

THE DEVELOPMENT OF THE COMPANY TO THE PRESENT

INTRODUCTION

Consolidated-Bathurst is Canada's third largest pulp and paper company in terms of its 1974 sales (after MacMillan Bloedel and Domtar). The corporate entity of Consolidated-Bathurst was created on December 16, 1966, when Consolidated Paper Corporation Limited acquired majority control of Bathurst Paper Limited. For terms of the merger see Appendix II of this report.

This study will describe the facilities and operations of each predecessor company prior to the merger, then highlight the events following the merger, and finally give a brief summary of the position of the company today. The purpose is to show how the company has reached its present position, and the key management decisions that were involved. It should be noted that although Power Corporation of Canada's interest in Bathurst dated from 1929, and its interest in Consolidated Paper from 1965, it did not acquire effective management control of the merged corporation until 1970.

The following description of the predecessor companies is adapted from the November 16, 1966 circular describing Consolidated Paper's offer to Bathurst shareholders.

A. CONSOLIDATED PAPER CORPORATION LIMITED

Consolidated was incorporated through the Companies Act of Canada in 1931. At the time of the merger with Bathurst Paper Limited in 1966 it was one of the largest Canadian producers of newsprint. Directly and through subsidiary companies Consolidated also produced other pulp and paper products, lumber and industrial bags and leased high speed bag filling and weighing equipment. Consolidated and its wholly owned subsidiaries had revenues of $137.7 million in the year ended December 31, 1965.

In 1960, Consolidated had begun a diversification and expansion program with the acquisition of the assets of the multiwall bag division of St. Regis Paper Company (Canada) Limited, consisting of four multiwall bag plants strategically located across Canada. Further expansion took place in 1963 with the acquisition of Gillies Bros. & Co. Ltd., which owned lumber mills at Braeside, Ontario, and Waltham, Quebec. In 1965, Consolidated acquired a controlling interest in Doeskin Products Inc., which had its head office in New York City and operated two paper mills and two converting plants in the sanitary paper products field in the United States. In the same year, an investment was also made in Rolland Paper Company, Limited, a producer of fine papers situated in the province of Quebec. All these acquisitions made between 1960-1965 were arms-length transactions.

TIMBER LIMITS

At the time of the merger Consolidated controlled some 19,500 square miles of timber limits, 18,500 square miles in the Province of Quebec and 950 square miles in Ontario. 15,850 square miles were held under Crown leases from the Provinces. 3,650 square miles were freehold timber limits, included the entire Anticosti Island in the Gulf of St. Lawrence. Almost all of the Crown leases in the Province of Quebec had been held by Consolidated for over twenty-five years but on a yearly basis. Those in the Province of Ontario had been held by Consolidated or a wholly owned subsidiary for well over twenty-five years and had terms of twenty-one years each subject to review on the ninth and eighteenth year.

These limits were divided into three divisions: The Western Division, mainly in the St. Maurice Valley watershed, served the Laurentide mill at Grand'Mère, the Belgo mill at Shawinigan and the Wayagamack mill at Trois Rivières, all in the Province of Quebec. The Eastern Division, in the Peribonka, Saguenay, Escoumins and Portneuf areas and Anticosti Island, served the Port Alfred mill at Port Alfred, the Wayagamack Cape Mill at Cap-de-la-Madeleine and the Peribonka sawmill at Lake Tchitagama, all in the Province of Quebec. The Ottawa Division in the Upper Ottawa River watershed served the sawmills at Braeside and Pembroke, Ontario and Waltham, Quebec, and would serve the new Pontiac bleached kraft pulp mill at Portage-du-Fort, Quebec.

Consolidated obtained around 20% of its pulpwood requirements from farmers and independent pulpwood suppliers. The timber limits were more than adequate to supply all Consolidated requirements, including the Pontiac mill, on a perpetual yield basis.

FACILITIES AND OPERATIONS

Pulp & Paper Mills

Consolidated had five pulp and paper mills, all in the Province of Quebec; "Belgo" at Shawinigan, "Laurentide" at Grand'Mère, "Wayagamack" at Trois Rivières, and "Wayagamack Cape" at Cap-de-la-Madeleine, all readily accessible to the St. Maurice River, and "Port Alfred" at Port Alfred, at the head of navigation on the Saguenay River. The potential annual saleable capacity of these five mills in 1966, based on a seven-day week was approximately 1,149,275 tons including 1,034,135 tons of newsprint, 83,140 tons of kraft paper and 32,000 tons of boxboard, as shown in Table I.

Consolidated's power requirements were supplied under long-term contracts by the Quebec Hydro-Electric Commission for its Belgo, Laurentide, Wayagamack, and Wayagamack Cape and by the Saguenay Power Company for its Port Alfred Mill.

At the time of the merger, a bleached kraft pulp mill (Pontiac) was under construction on the Ottawa River near Portage-du-Fort, Quebec. Budgeted to cost $50 million (although the final capital cost amounted to $71.6 million), the mill was to produce prime-quality bleached and semi-bleached softwood

and bleached hardwood kraft pulp and would enable Consolidated to utilize more fully the timber limits which it had in that area. The initial daily capacity of this mill was to be 500 tons and it was designed with a potential daily capacity of 1,000 tons (no increase has yet been made). Contractual commitments and internal consumption assured an outlet for a substantial portion of the production from this mill; the balance was to be sold in the Canadian, American and overseas markets.

TABLE 1

FIVE MILLS ANNUAL SALEABLE CAPACITY

Tons

	Groundwood Pulp	Unbleached Sulphite Pulp	Unbleached and semi-bleached Kraft Pulp	Newsprint	Kraft Paper	Boxboard
Belgo	715	205	-	838	-	-
Laurentide	552	136	-	722	-	90
Port Alfred	700	225	-	863	-	30
Wayagamack	260	-	300	258	244	-
Wayagamack Cape	325	-	-	354	-	-
Total Daily Capacity	2,552	566	300	3,035	244	120
Total Annual Capacity	869,416	192,964	102,200	1,034,135	83,140	40,888
Total Annual Saleable Cap.	(1)	(1)	(1)	1,034,135	83,140	32,000 (2)

(1) Groundwood pulp, unbleached sulphite pulp and unbleached and semi-bleached kraft pulp are intermediate products and were all used by Consolidated to manufacture newsprint, kraft paper and boxboard.

(2) The difference between capacity and saleable capacity is due to the use of about 8,888 tons of boxboard products in the finishing operation of newsprint and kraft paper.

Lumber Mills

Consolidated, through its wholly owned subsidiaries, operated the following lumber mills:

Location	Capacity (f.b.m.)	Products
Braeside, Ontario	40,000,000 (2 shift basis)	White & red pine
Pembroke, Ontario	15,000,000 (1 shift basis)	White & red pine & spruce
Waltham, Quebec	6,000,000 (1 shift basis)	Hardwood, mainly birch
Lake Tchitagama, Quebec	22,000,000 (2 shift basis)	Spruce
TOTAL	83,000,000	

Approximately 85% of the lumber produced at the Braeside and Pembroke mills was white pine.

Bag Plants

Consolidated owned five industrial bag plants which were operated through a wholly owned subsidiary under the name of St. Regis Consolidated Packaging Limited. They were located at Cap-de-la-Madeleine and St. Lambert, Quebec; Dryden, Ontario; Calgary, Alberta; and Vancouver, British Columbia. The Calgary plant was brought into production at the end of 1965. The five plants covered a combined area of 640,000 square feet.

Multiwall paper bags represented the largest proportion of this subsidiary's production capacity but all-plastic heavy-duty bags, polyethlyene coated papers and paper towelling were also produced.

PRODUCTION AND MARKETS

Pulp and Paper

Consolidated sold 24% of its total tonnage of pulp and paper products in Canada, 67% in the United States with the balance distributed to other long established world markets.

Annual sales in tons of pulp and paper products of Consolidated for 1956-65 were as follows:

TABLE II

ANNUAL SALES OF PULP & PAPER PRODUCTS 1956-65
(Tons)

	Newsprint	Kraft Paper	Boxboard	Un-bleached Kraft Pulp	Un-bleached Sulphite Pulp	Other Products	Total Sales
1965	783,722	63,388	17,220	91	-	8,954	878,425
1964	745,975	58,726	18,120	131	-	8,247	831,199
1963	718,331	58,038	14,085	1,743	-	3,108	795,305
1962	721,780	59,947	12,797	4,261	-	2,368	801,153
1961	736,232	59,036	11,915	5,450	-	1,391	814,024
1960	738,066	57,921	12,620	5,353	-	1,489	815,449
1959	707,819	60,249	11,769	5,310	-	1,764	786,911
1958	683,943	56,200	12,314	5,774	49	597	758,877
1957	786,436	46,204	13,055	9,601	-	1,043	856,339
1956	830,866	51,418	14,339	9,632	-	418	906,673

Lumber

Gillies Bros. & Co. Ltd. marketed a variety of lumber products in the Canadian, United States and overseas markets. During 1965, approximately 50 million f.b.m. of white and red pine, spruce and hardwood lumber were sold in these markets.

Industrial Bags and Other Products

St. Regis-Consolidated Packaging Limited marketed industrial bags including multiwall paper and plastic bags, polyethylene coated papers and paper towelling in the Canadian market. High speed bag filling and weighing equipment was leased for use in customers' plants. Industrial bags were sold for the packaging of cement, fertilizer, potash, chemicals, peat moss, rock products, flour, sugar, salt and other products.

OTHER INTERESTS

Doeskin Products, Inc.

Consolidated held a 70% interest in Doeskin Products, Inc. a company incorporated under the laws of the State of New York. The remaining 30% was held by Brown Company, a U.S. paper company. It operated two paper mills, at Clayville, New York, and Rockland, Delaware, and two converting plants, at Utica, New York, and Rockland, Delaware. Doeskin was engaged in the manufacture of paper from pulp and other raw materials, its conversion into a line of sanitary paper products, such as facial tissue, towelling, toilet tissue, napkins and similar products, and the packaging, shipment and sale thereof to independent wholesalers, retailers, and industrial consumers under registered trade names such as "Doeskin", "Countess Lydia Gray" and "Sitrue". Its annual sales volume was approximately $15 million (U.S.).

Rolland Paper Company, Limited

Consolidated and Rolland Paper Company, Limited negotiated a mutual technical aid agreement in February 1965. Between March and June 1965 Consolidated subscribed for 400,000 Class A treasury shares (non-voting) of Rolland at $14.66 per share. Rolland simultaneously bought 125,000 shares of Consolidated in the open market at an average price of $46.90. Consolidated also purchased 99,200 Class A shares and 35,000 Class B voting shares from the Rolland family in a private transaction. Subsequent open market purchases have brought Consolidated's holdings to 514,500 A shares and 49,805 B shares. This represents 30.7% of the equity and 10.4% of the votes. The Rolland family still own over 50% of the voting shares. The purpose of the association was to provide Consolidated with a market for pulp from the Pontiac mill, and to give Rolland an assured source of supply.

Rolland, with mills at Mont Rolland and St. Jérome, Quebec and a coated paper plant at Scarborough, Ontario, manufactured high-grade bond writing, ledger, airmail, offset and mimeograph papers. Its products included some 100 grades of fine paper, the majority of which were sold in the Canadian market. Its principal raw materials were cotton rags, in the form of clippings from textile mills, and bleached sulphate and sulphite pulps. In 1965, its sales were $28,290,000.

B. BATHURST PAPER LIMITED

Bathurst was incorporated in 1928 under the laws of Canada. The head office of the company was located in Bathurst, New Brunswick; the executive offices were in Montreal, Quebec.

The Company had close connections with Nesbitt, Thomson & Co. and Power Corporation from the time it was incorporated. In 1933 Power acquired 13% of the voting shares, which was effective control. Subsequent purchases brought Power Corporation's holding to 30.7% of the common stock (on a fully converted basis) at the time of the merger.

Bathurst was engaged primarily in the production of paperboards and the conversion of kraft linerboards and corrugating medium into corrugated shipping containers and other corrugated products. The company also produced and converted packaging grade veneers into wirebound boxes and crates, and manufactured other wood boxes, and participated in the plastic packaging field through production of plastic squeeze tubes, bottles, boxes and other plastic containers. Sawn softwood lumber also was produced for sale.

TIMBER LIMITS

At the time of Consolidated's offer Bathurst held approximately 1,474 square miles in the Gaspé Peninsula, Quebec, and 1,565 square miles in New Brunswick under licence from the Provinces. In addition to obtaining wood from these sources, the company purchased substantial quantities from independent local producers. Wood chips were supplied from the company's sawmill at New Richmond, Quebec and from other sawmills.

Bathurst's woodlands operations were highly mechanized, utilizing advanced logging and transportation techniques. The modern units of woodlands equipment used in mechanized operations were leased to the company.

The operation of Bathurst's timber limits was on a perpetual yield basis and the limits together with the sources of purchased wood were sufficient to satisfy the company's requirements for pulpwood.

FACILITIES AND OPERATIONS

The manufacturing and sales operations carried on by Bathurst itself and through subsidiary companies were organized as follows:

Bathurst Division

Bathurst owned and operated a pulp and paperboard mill at Bathurst, New Brunswick and supporting timber limits. The mill comprised a Kraft pulp plant, a semi-chemical plant, an unbleached sulphite pulp plant and a groundwood pulp plant supplying a containerboard mill and a boxboard mill for the conversion of pulp into kraft linerboard, corrugating medium, and coated and uncoated boxboards.

There were four paperboard machines, two fourdrinier machines for the manufacture of kraft linerboards and corrugating medium, and two cylinder machines for the manufacture of boxboards.

The combined total annual productive capacity of the pulp mills and the paperboard machines, based on a six-day week of three eight-hour shifts per day, amounted to 285,000 tons of pulps and 180,000 tons of paperboards. At certain times, Bathurst had operated in excess of a six-day week in order to satisfy peak demands.

The principal source of electric power for the mills was the company's hydro-electric plant at Great Falls, on the Nepisiquit River in New Brunswick, nineteen miles from the mill. The plant had an installed capacity of 14,500 horse power, together with turbines generating 23,000 horse power as a by-product of steam production for manufacturing purposes at the mills. Bathurst also had a power interchange arrangement with the New Brunswick Electric Power Commission.

Chaleurs Division

This division comprised the then new kraft linerboard mill at New Richmond, Quebec and its supporting timber limits together with a sawmill. Operations of the division were conducted by the wholly owned subsidiary, Bathurst Paper (Chaleurs) Limited.

The kraft linerboard mill was equipped with one 270-inch fourdrinier paperboard machine, of the most modern design, complete with all auxiliary equipment and services required for the conversion of both softwood and hardwood into prime quality kraft linerboards. The paperboard machine was designed to operate up to 2,000 feet per minute, a capacity of approximately 600 tons per day. When fully developed, the annual productive capacity of the new mill, based on a seven-day week, would be approximately 220,000 tons of kraft linerboards.

The sawmill at New Richmond, Quebec produced approximately 15 million board feet of sawn softwood lumber and approximately 13,500 tons (bone dry) of wood chips annually, on a single shift basis.

All electric power was purchased from Hydro-Québec under a long-term contract for the supply of 18,000 k.w.

Bathurst Paper Sales Limited

This wholly owned subsidiary operated as a sales company for all paperboard and lumber products manufactured by the Bathurst and Chaleurs Divisions. The subsidiary was represented in the United Kingdom and Western Europe for export shipments of paperboards made to these markets.

Bathurst Containers Ltd. Bathurst Containers (Maritimes) Ltd. Veneer Products Ltd.

These wholly owned subsidiaries operated as divisions of Bathurst in the manufacture and sale of corrugated and wood products. Plants were located at St. Thomas, Hamilton, Toronto, Whitby and Lindsay in Ontario, St. Laurent and Montreal in Quebec, St. Boniface in Manitoba and Lancaster and Napadogan in New Brunswick.

The container plants were equipped with modern high-speed corrugating machines and had a combined productive capacity of approximately 3.1 billion square feet of corrugated board per annum on an operating basis of three eight-hour shifts per day, five days per week. The plants at Toronto and Montreal were equipped to produce a complete range of wirebound boxes and crates and to manufacture other wood boxes. Approximately 15 million board feet of lumber and veneer were used annually in this particular phase of the shipping container operation.

The packaging grade veneer plant at Napadogan, New Brunswick had an annual productive capacity of 5.4 million board feet of veneers.

Twinpak Ltd.

This subsidiary sold plastic containers and other types and varieties of plastic specialities, which it manufactured in two plants at Lachine and Granby in Quebec. These products were manufactured by injection moulding, blow moulding or extrusion and were widely used in the packaging of cosmetics, liquid household products, chemicals, pharmaceuticals and food products.

PRODUCTION AND MARKETS

In 1965, Bathurst produced 191,225 tons of paperboards and 121,453 tons of corrugated products.

Domestic markets for all products of Bathurst extended from the Atlantic Provinces to Saskatchewan. In the export market, substantial tonnages of kraft linerboards were being shipped overseas under a long-term contract to supply a major customer and to fulfil requirements of other customers. Export shipments of other paperboards were also being made to the United Kingdom and Western Europe.

Bathurst also had an arrangement with Abitibi Paper Company Ltd. whereby sales of corrugating medium in the United Kingdom were made on a tonnage exchange basis in order to effect savings in transportation costs.

OTHER INTERESTS

In 1965, Bathurst acquired a major interest in Bulkley Valley Pulp and Timber Limited under an equal partnership arrangement with Bowaters Canadian Corporation Limited. This arrangement at that time envisaged the establishment by the end of 1971 of a major pulp and paper operation in British Columbia. (In fact, as detailed on p. 97, the entire investment had to be written off in that year).

As a development of the Bulkley Valley program, Bathurst and Bowaters Canadian Corporation Limited and Bulkley Valley Pulp and Timber Limited had acquired, jointly, a substantial minority interest in Cooper-Widman Limited of Vancouver, British Columbia, a company engaged on a large scale in the production and distribution of lumber and lumber products. As part of this acquisition, a long-term contractual arrangement was made for the supply of chips to the projected pulp and paper operation in the Bulkley Valley,

British Columbia. Bathurst and Bowaters and Bulkley Valley had recently agreed to purchase Buck River Lumber Co. Ltd. of Houston, British Columbia, which likewise was engaged in the production and distribution of lumber products. This company would also provide a source of supply of chips to the projected Bulkley Valley operation.

Bathurst also owned 35% of the outstanding shares of Maritime Paper Products Limited, which, through a wholly owned subsidiary operated a corrugated shipping container plant at Halifax, Nova Scotia.

C. MERGER OF CONSOLIDATED PAPER CORPORATION LIMITED AND BATHURST PAPER LIMITED

The stated reasons for the merger in the Consolidated Paper Corporation offering circular were as follows:

> The merged companies would constitute a broadly diversified and integrated forest products enterprise serving the domestic and export markets. Consolidated is a producer of newsprint, kraft paper, boxboards, lumber and with the start-up of the new Pontiac mill, bleached kraft pulp. Bathurst is a major producer of kraft linerboard, corrugating medium, boxboards and manufactures lumber. Bathurst is a leader in the shipping container industry while Consolidated is a leader in the industrial bag packaging industry. The products of the two companies are complementary* and a merger would create opportunities for close mutual support in manufacturing, market development, sales and research.
>
> Such a combination would also be in keeping with the general trend towards larger corporate structures formed in order to provide economies in operation and competitive capability in both domestic and export markets and would create an enterprise of senior rank in Canadian industry owned almost entirely by Canadians.

The stated reasons, however, appear to be largely generalities. Maurice Strong at Power Corporation had initiated the purchase of Consolidated Paper shares by PCC in 1965 and between 1962 and 1966 had seen PCC add substantially to its holdings of Bathurst Paper shares (for exact details of these Power purchases see page 13 of this report). Maurice Strong left PCC in 1966 and W.I.M. Turner, Jr. took his place and effectively engineered the merger of the Consolidated and Bathurst paper corporations.

As far as can be determined, the actual sequence of events which led up to the merger appear to have been as follows: The Consolidated Paper stock (purchased by PCC in 1965) had been acquired at a rather high price in the judgment of PCC. They believed Consolidated to be a technically well run

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* - Because of the lack of product overlap between the two companies, there was almost no increase in market share by product after the merger.

operation with a good cash position but weak senior management. However, since PCC had only two representatives on the Board of Consolidated there was little that they could do to counteract their negative assessment of Consolidated management, particularly in the face of Consolidated's decision to build the Pontiac pulp mill, which PCC protested.

However, some of the directors of Consolidated mentioned that Mr. Belnap was about to retire and that Mr. Irwin of Bathurst Paper would be an excellent replacement to run the combined operation. Mr. Turner of PCC approved of the idea of spreading the investment risk in Consolidated by introducing into it the packaging assets and the President (Mr. Irwin) of Bathurst Paper.

At this stage, Power Corporation declared its investment in both sides and suggested a committee from both companies to study a straight merger. This committee was comprised of:

a) Messrs. Yarnell and Hobart of Consolidated Paper together with representatives from Wood, Gundy, the Corporation's fiscal agents.

b) Messrs. Irwin and Campbell of Bathurst Paper together with representatives from Nesbitt, Thomson.

Ultimately the committee could not agree as to the terms of a straight merger and Mr. Yarnell of Consolidated Paper originated the idea of a preferred share (plus warrant) issue of Consolidated Paper for equity of Bathurst. The calculations for the share exchange were made by the committee and PCC did not vote upon the committee's eventual recommendations.

Despite the fact that Bathurst minority shareholders gave up their common equity interest, the stock market performance of their new (preferred) shares was about equally as good as that of their (Bathurst) common shares in the previous year, which was creditable in view of the fact that the industry outlook was deteriorating. To illustrate, the Bathurst common shares had an average price of about $26 1/8 in 1966; converting them into Consolidated Paper preferred shares and warrants, the 1967 average price was about $26 5/8. Similarly for the Class A shareholders, their average 1966 price was $55.00, while on a converted basis their 1967 price was about $53¼. Additionally, the Bathurst common shareholders had exchanged a 1966 income of $0.50 per share for a 1967 income of $1.50, while the Class A shareholders received a 1967 dividend of $3.00 compared to their 1966 income of $2.50 per share.

D. HISTORY OF CONSOLIDATED-BATHURST FROM 1967 TO THE PRESENT

INDUSTRY SITUATION

The period from 1967 to 1973 was characterized generally by low operating rates and poor results which were largely the result of overbuilding and surplus capacity in the newsprint and pulp sectors.

For example in 1966, the year before the merger between Bathurst and Consolidated, the newsprint industry operated at 95% - a rate which it did not attain again until 1974 (see below).

CANADIAN NEWSPRINT INDUSTRY OPERATING RATE

Year	Rate
1966	95%
1967	87
1968	83
1969	91
1970	89
1971	83
1972	86
1973	88
1974	95
1975	75*

* - Partially reduced by strikes.

Although market pulp operating ratios are not available for the 10-year period, the situation was worse than for newsprint by 1970. Price discounting became widespread and the pick-up did not come until late 1973 when the world economic boom resulted in sharp increases in demand and pricing.

Capacity expansion was far more restrained in the paperboard and packaging sector in the late 1960s and early 1970s and profits in these areas largely corresponded to the ups and downs of the economic cycle. Pricing was generally firm during the period.

PERFORMANCE OF CB RELATIVE TO THE INDUSTRY

In the report on Power Corporation, we have detailed CB's profits and those of the pulp and paper industry in general. In the following table, we show CB's profits as a percentage of those for the industry as a whole from 1965 to 1975.

TABLE III

PROFITS AS A PERCENTAGE OF THE INDUSTRY 1965-75

1965	*7.5%	1971	0.5
1966	*7.5	1972	8.5
1967	11.3	1973	6.2
1968	8.2	1974	7.0
1969	5.0	1975	9.3
1970	0.5		

* - Note: 1965-66 is combined share of Consolidated Paper and Bathurst Paper Limited.

This table clearly shows the deterioration of Consolidated-Bathurst fortunes relative to the industry, which resulted in the ultimate acceptance by the CB board of increased participation by Power Corporation and effective control being attained by PCC in 1970.

On November 26, 1970, W.I.M. Turner, Jr. previously President of Power Corporation of Canada succeeded Mr. R.A. Irwin as President of CB. The latter was elected Chairman of the Board to replace Mr. George M. Hobart who retired on March 31, 1970. This major change in management took place following the increase in Power Corporation's ownership from 16.6% of CB's common stock to 35.2% -- the result of PCC's offer to shareholders to exchange 2½ common shares of PCC for each CB common share held. The offer expired on June 2, 1970. (For further details, see subsequent section; "Power Corporation's involvement in CB".) It should be noted that with the appointment of Mr. Turner as President of CB, Power Corporation as major shareholder obtained an effective voice in its management for the first time.

Under Power Corporation's control, profits have recovered both in absolute terms and relative to the industry. In 1975 Consolidated-Bathurst's profits were a greater proportion of the Canadian paper industry profits than in any previous year except 1967.

CORPORATE DEVELOPMENTS:

ACQUISITIONS, EXPANSION AND INVESTMENTS 1967 TO PRESENT

The 1967 to 1970 period can be categorized as a period of expansion, while following acquisition of effective control in 1970 by PCC there was a period of retrenchment. This latter period saw CB divest itself of two key projects (namely Concel and Bulkley Valley) in which it had become deeply involved between 1967 and 1970 and which were in large measure the cause of the Company's financial difficulties which came to a head in 1971.

The major expansion projects in the 1967-70 period were as follows:

Concel Inc.

In 1967 CB acquired additional tissue product operations in the United States. The stated purpose was to provide outlets for pulp from the new Pontiac mill.

The acquisitions included the arms-length purchases of the assets and business of A & W Products Inc. and associated companies in the Eastern U.S., and of all the shares of Orchids Paper Products Company in California.

In addition CB purchased (for $8.8 million cash) all the assets of Doeskin Products Inc. and the latter company was wound up. CB owned 70% of the shares of Doeskin and Brown Corporation owned 30%. This was an amicable transaction.

All these U.S. operations were then merged (in 1967) into Concel Inc. a wholly owned subsidiary of Consolidated-Bathurst.

The philosophy behind the U.S. tissue operation was to use private labels and avoid head-on competition with Kimberley-Clark and Scott Paper. However, competition did ensue. When in addition there were technical difficulties, largely with a tissue machine in St. Helen's, Oregon, bought from Boise Cascade Corporation in May 1969, the operations became increasingly unprofitable. In 1969 Concel showed a loss which in 1970 expanded to $4.1 million, without any compensating tax relief in Canada.

Power Corporation representatives on the board of CB had urged sale of the Concel operation, but it was not until W.I.M. Turner became President of CB in late 1970 that this was implemented. Concel was disposed of, as follows: all shares of Concel Inc. were sold to APL Corp. of Great Neck, N.Y., for a new series of APL preferred shares valued at $2,000,000. This was an arms-length transaction, and closing was subject to the prior disposal of Concel's Eastern U.S. plants. These plants were accordingly sold or closed.

Bulkley Valley Pulp and Timber Limited

In 1965 Bathurst acquired a major interest in Bulkley Valley under an equal partnership arrangement with Bowaters Canadian Corporation Limited.

In 1968 the joint development program with Bowaters was expanded. It was determined that Bulkley Valley was to construct a large sawmill at Houston, British Columbia, at a projected cost of $24 million. This was to be the first part of a major forest products complex. CB made an additional equity investment of $5.2 million in 1969 and a further $1.75 million in January 1970 through purchase of debentures. The Houston lumber mill was opened on August 13, 1970 and during the year CB spent $3.6 million on Bulkley Valley with commitments to spend a further $5 million. As with Concel, Power Corporation had been advocating disposal of Bulkley Valley for some time, but only with Mr. Turner's arrival as President could this be accomplished. In December 1971, CB wrote off its investment in Bulkley Valley in the amount of $18.8 million.

By agreement jointly with Bowaters Canadian Corporation Ltd. the combined 97% interest in Bulkley Valley was sold to Northwood Pulp effective Feb. 1, 1972. Under the terms of the agreement CB was relieved of its undertaking to make further advances to Bulkley but remained contingently liable up to an aggregate amount of $10.6 million.

Pontiac Pulp Mill

Pontiac pulp mill was an expansion project which had been initiated by Consolidated prior to the Bathurst merger. This was one of a spate of pulp mills built in federally designated areas in the late 1960's and was perhaps the least successful. It was designed to produce only 500 tons of pulp per day (in contrast, for example, to 750 tons a day for Domtar's Quevillon mill). The cost overrun was over $21 million or 40%, and ultimately the major product of the mill was hardwood rather than softwood pulp.

The Pontiac mill started up in November 1967, and lost money in 1968, 1969, 1970, 1971. In the 1972 annual report the mill was described as a marginal operation, and in 1973 operational problems caused the mill to produce less than in 1972. Modifications initiated in the years subsequent to PCC's gaining effective control of CB allowed production to exceed 200,000 tons for the first time in 1974, and the mill finally showed a fair profit. With firm pulp prices for the bulk of the year, the Pontiac operation contributed $21.3 million to pre-tax profits in 1974 and in 1975 the figure was $10.3 million.

German Operations

The most successful of the Consolidated-Bathurst expansion ventures in the 1967 to 1970 period was the move into Germany.

In 1967 CB made an arms-length purchase of two companies in West Germany: Europe Carton A.G., and Bremer Papier-und-Wellpappen-Fabrik A.G., which together formed one of the largest suppliers of packaging products in the European market. Manufacturing operations of these companies were carried on in four paperboard mills and eight converting plants. The combined net sales of these two operations amounted to $36.2 million in 1967.

In 1968 construction of a new plant was started at Germersheim to increase the number of the company's corrugated container plants in Germany to five. The plant began production towards the end of 1969. Further additions were made in 1970 -- expansion of the folding carton plant in Bremen following the closure of the following carton plant in Hamburg and the re-building of a paperboard machine at Lubbecke to increase its production by 25%. Finally in 1974 CB acquired Lauenburger Wellpappenwerk GmbH for $523,000. In 1974 and 1975 the German operations contributed $8.7 million and $3.3 million, pre-tax.

Dominion Glass

In May 1967 in an offering open to the public CB and PCC jointly bid for 1.2 million common shares of Dominion Glass Co. Ltd. at $15 per share. As previously pointed out, Power Corporation was the largest individual shareholder of CB at the time but did not exercise managerial control. More than 1.2 million shares were submitted, and they were taken up on a pro rata basis. This transaction was not contentious.

The two companies increased their holdings by open market purchases in the following months to hold 660,647 shares each.

In September 1968, Consolidated-Bathurst sold its holdings of DG to Power Corporation for $10.7 million (approx. $15¾ per share) giving CB a profit of $500,000. Consolidated-Bathurst needed cash for the Bulkley Valley venture and to cover the losses of the Pontiac mill and the U.S. tissue companies.

In April 1973, Consolidated-Bathurst purchased Power's total holding of 1,359,344 shares of Dominion Glass (56.7% interest) for $13 per share in cash plus a maximum of $3 per share additional to be paid in 1977 contingent upon subsequent earnings of Dominion Glass.

The reasons given for the transaction were:

a) All of Power's packaging interests would be brought together in one holding.

b) The steady nature of DG's business would help to smooth CB's fluctuating earnings from pulp and paper.

In April 1974 Consolidated-Bathurst made an offer to acquire all outstanding minority shares of Dominion Glass at $14 per share. When the offer expired CB held 2,286,671 shares (95.9%). They have taken no legal steps to force acceptance of the offer by the remaining minority shareholders.

This last transaction was criticized on two grounds:

a) The offer was less than that paid in 1967, although the earning power had approximately doubled in the interval.

b) The offer was less than the maximum price potentially payable to Power Corp. in the non-arm's-length transaction of 1973.

In considering this the following points should be borne in mind.

a) The price paid in 1974 was a premium over the market in previous months. The high and low prices from 1966-1975 are:

STOCK PRICE HIGH-LOW

Year	High	Low
1966	16¼	12
1967	14	8
1968	16 3/8	7¾
1969	24¼	16
1970	20	10
1971	16¼	9½
1972	17½	12¾
1973	14½	11¼
1974	13 7/8	10½

b) The price/earnings ratio of a typical stock was only about one-half as great in 1974 as it was in 1967.

c) The minority shareholder received $14 cash immediately. Power Corporation received only $13 immediately, with the balance due four years later and contingent upon DG's performance.

d) It has been customary to pay a premium price for a control block, on the grounds that control in itself has a value over and above the normal value of the stock. Power and Consolidated-Bathurst paid a premium over the market in 1967 when they acquired control from the public.

Twinpak Limited

In 1970, Consolidated-Bathurst acquired the outstanding minority interest in Twinpak Limited, under the terms of the original 1965 purchase agreement. This plastics division had net sales of only $5.9 million, and is only of minor importance in CB's operations.

In 1973, in another internal PCC arrangement, Dominion Glass bought a 50% interest in Twinpak from CB. Twinpak had plants at Granby and Dorval, Quebec, while DG's plastics plant was located in Etobicoke, Ontario. Its plastic products were different from, but complementary to, those of Dominion Glass. Dominion Glass bought the remaining 50% from CB in early 1976.

Acquisition of Shares in
The Price Company Limited

In November 1974, Abitibi Paper Co. Ltd. and Consolidated-Bathurst both tried to acquire a controlling position in The Price Company Limited. The ultimate outcome was that Abitibi acquired control of Price, but CB in the process was able to improve its balance sheet materially.

The episode was one of the most dramatic in Canadian corporate history and demonstrated the ability of Power Corporation, and specifically Mr. Desmarais, to work with the Chief Executive Officer of one of its subsidiaries --namely William Turner--and a small management team in a manner which allowed lightning decisions to be taken. In the course of those momentous few days, strategies were planned, rejected, reformulated and implemented: strategies involving millions of dollars and yet also the sensibilities of other human beings who, if treated differently in the heat of the action, would likely have taken decisions different from their ultimate outcome.

The drama started on November 14, 1974 when Abitibi made public its offer to buy 49% of the shares of Price (for a total of almost 4.8 million shares) at $18 per share. Abitibi had been looking for acquisition candidates for some while and had settled upon Price. Its newsprint operations complemented those of Abitibi and Abitibi was acquiring the mills at a fraction (perhaps half) of their replacement cost; in addition the shares were selling well below book value, at about three times projected 1974 earnings, while the company had little debt and ample cash. In 1969 merger talks between Abitibi and Price had fallen through and ironically Price in the summer and fall of 1974 had been contemplating taking over Abitibi. No bid was proceeded with as the controlling shareholders of Price, representatives of Associated Newspapers Group, were concerned about the Foreign Investment Review Act, and also the tax implications for themselves in Great Britain.

On November 14, the senior executives of Price were gathered at La Sapinière in Val David, Quebec, for a sales conference. Charlie (C.R.) Tittemore, President of Price, was informed of the bid in person by Harry Rosier, President of Abitibi, who had only discovered late in the afternoon of November 13 the whereabouts of the Price President. Charlie Tittemore immediately informed his English shareholders of the bid.

The Abitibi offer was made through the facilities of The Toronto and Montreal Stock Exchanges and was open until 9:45 a.m. on Tuesday, November 19, by which time all shares had to be submitted to Wood Gundy, the broker acting for Abitibi. Effectively this allowed only three working days for consideration of the bid, compared to the normal 21-day period required by the Exchanges for dissemination of information presented in an offer circular.

At about 9:30 a.m. on November 15, the day after the offer was made, Arthur Patillo, Chairman of the Ontario Securities Commission, telephoned John A. Tory, lawyer for Abitibi and J.R. Kimber, President of The Toronto Stock Exchange to arrange a meeting for early that afternoon. At the meeting, they were advised of the possibility of a 48-hour extension being required for the offer. In fact, on Monday, November 18, a 24-hour extension until 9:45 a.m. on Wednesday was agreed to following a request from Canada Permanent Trust, who were finding it difficult to contact all their clients prior to the deadline.

On Friday afternoon (November 15), Charlie Tittemore issued a press release advising shareholders of Price to defer action because of the possibility of another bid. This statement was prompted by hopes of an alternative offer from Domtar Limited in Montreal. Domtar - 14% owned by Argus - held 7% of Price shares. All Friday, Mr. Bud McDougald, Chairman of Argus, had been trying to arrange an offer of shares and cash for Price Company. Lack of time caused the plan to be abandoned on Saturday, November 16.

On Sunday evening, November 17, Vere Harmsworth, Chairman and Chief Executive Officer of Associated Newspapers Group (which controlled Price Company) together with Peter J. Saunders, Corporate Secretary, arrived in Montreal. Next morning, together with Mr. Bob Morrow, Vice-Chairman of Price and Harmsworth's representative in Canada, they flew in the Price executive jet to Toronto to meet with Mr. Thomas Bell, President of Abitibi. The Harmsworth group was faced with U.K. exchange and taxation problems. To estimate whether Abitibi's $18 bid was reasonable, they had to know whether their investment in Price was regarded by the Bank of England as a direct or a portfolio investment.

Proceeds of a direct investment had to be repatriated to Britain and Bank of England approval obtained for reinvestment of the funds. Portfolio investments could however either be rolled over into another Canadian stock, providing currency protection against the depreciating pound, or sold into the dollar premium pool - an investment currency market where the U.K. investor had to pay a high premium (at that time better than 60%) for dollars to buy foreign assets. A sale of the proceeds into this pool would have resulted in a substantial gain to Associated Newspapers Group, giving the transaction a value well above $18. On the other hand, classification as a direct investment would have had the opposite effect. The tax problems related to the capital gains tax which would have to be paid if the investment could not be rolled-over and to ownership of less than 10% of Price. If Associated Newspaper Group had sold 49% of their Price holdings, they would have been left with almost 9% of Price shares, and dividends on those holdings would not have been eligible for double taxation relief in Britain.

Ultimately these varying considerations led to a verbal offer by the Associated Newspapers Group to tender one million of their Price shares to Abitibi and to accept a seat on the Board of Abitibi. At that point, Mr. Bell issued a press release announcing the success of the takeover.

However, on Monday evening on returning to Montreal, Vere Harmsworth learned that the Bank of England had classified the investment in Price as a direct, not a portfolio investment, thus severely reducing the value of the Abitibi offer and causing Associated Newspaper Group serious tax penalties.

On Monday, however, the one-day extension of the offer had been granted until Wednesday, 9:45 a.m. Mr. Paul Desmarais of Power Corporation now entered the scene. He had been in Paris the preceding week, and was informed only on Saturday of the developing situation. Because he was out of Montreal on business on Monday, it was Tuesday before he sat down to discuss the position with Mr. William Turner, President of Consolidated-Bathurst. Other Power associates - Messrs. Parisien, Curry, Knowles and Rae - together with Messrs. Irwin, Campbell, Wagg, Grundy and Stangeland from CB - were brought in to form a task force to decide whether to make an offer, how to make it, and how to finance it. Also summoned were representatives from Ogilvy, Cope, Porteous, CB's legal advisor and from C.J. Hodgson, the broker who ultimately acted for CB.

At about 10:00 a.m. on Tuesday, November 19, Mr. Desmarais and Mr. Morrow of the Associated Newspapers Group had a telephone discussion in which it was agreed that Associated Newspapers would join CB in an alternative offer. Initially the strategy was to attempt a private offering to institutional shareholders which, together with the Associated Newspapers Group's holdings, would have achieved control. However, under securities regulations such an offering must be limited to only 14 shareholders and these were insufficient to provide control.

This strategy was abandoned and alternatives explored. In the afternoon the task force was joined by Messrs. Tittemore, Morrow, Harmsworth, Saunders and Shields (managing director of Associated Newspapers Group). Through that long Tuesday evening, the details of a deal were ultimately hammered out.

Having already secured an $80 million line of credit with the Royal Bank and the Bank of Montreal, CB agreed to make a public offer of $20 a share for 4 million shares of Price (or roughly 40%). Meantime, Associated exchanged its shares in Price on a two-for-one basis for CB treasury stock: 930,385 CB shares for 1,860,770 shares of Price. This resolved Associated Newspapers' tax problems. CB thus would acquire another 18% of Price, giving it 58% in total. In addition CB obtained a call on supply of all Associated Newspapers Group's North American newsprint on expiry of their contracts (over roughly the next 3 to 4 years) with Price.

The following morning (Wednesday) at 9 a.m. CB announced its $20 counter-offer and the Montreal and Toronto Stock Exchanges suspended trading in shares of Price. Lengthy negotiations were then conducted between the Stock Exchanges and Wood Gundy and C.J. Hodgson representatives as to the rules of the game for subsequent counter-offers. Eventually agreement was reached that Abitibi be allowed until 2 p.m. on Thursday, November 21st, to make a second offer.

At 1:45 p.m. on Thursday - 15 minutes before the deadline - Abitibi bid $25 per share for 51% control and the Exchanges gave CB and Mr. Desmarais 2 hours to respond. Immediately Mr. Desmarais determined to tender the 1.8 million shares of Price. Why strain the financial security of CB to bid above $25 per share for Price when after about 2½ days of work he had obtained $24.6 million in cash (through the only major Canadian equity issue in the bear market of 1974) with the resultant improvement in CB's balance sheet, a holding of 879,000 shares of Price, and an important newsprint contract with Associated Newspaper Group?

Thus came to a close the frantic dealings of those November days. Shortly thereafter on December 2, 1974 CB exchanged 338,000 of its Price shares with a leading financial institution for 255,300 of its own preferred shares which were subsequently cancelled.

OTHER ACQUISITIONS

As we stated earlier, apart from the Price - Abitibi episode and the reintroduction of DG into CB, the post-acquisition period of effective control by PCC (after 1970) was one largely of retrenchment. Acquisitions were minor and limited to 1974, when CB bought Bobois Ltée for $528,000, Lauenburger Wellpappenwerk GmbH for $523,000 and Dorchester Electronics for $302,000.

Anticosti Island

On April 23, 1974 in the course of negotiations with the Government of Quebec concerning the sale of Anticosti Island, the Government expropriated the Island. Agreement of sale establishing a value of $23.8 million was signed on December 13. Together with the $24.2 million received in the price transaction, CB management had succeeded in providing an infusion of $48 million into the company (plus the remaining readily marketable Price shares) in a year of world recession, when raising cash other than by debt instruments was a very difficult task.

CAPITAL EXPENDITURES

It should be borne in mind that Power Corporation of Canada, as at the date of the merger of Consolidated Paper and Bathurst Paper in December 1966, held 15.6% of the former and 30.7% of the latter's common stock on a fully converted basis. Active participation by Power Corporation, however, did not come into effect until Power obtained 35% of the common stock (with the share exchange offer in 1970) and the subsequent appointment of Mr. Turner (previously President of PCC) as President of CB in November 1970 at a time when CB's fortunes were declining rapidly.

As previously mentioned the pre-1970 period was one of excess expansion for CB beyond its financial capability, while the post 1970 period was one initially of retrenchment. Over the two periods the expenditure figures were as follows:

TABLE IV

CAPITAL EXPENDITURES BY

CONSOLIDATED-BATHURST

1966-1975
(Millions)

1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total
$56.6	$63.6	$16.2	$25.7	$22.9	$10.5	$15.0	$30.2	$37.0	$49.7	$277.4

Note: Over the period 1966 to 1974 inclusive, $18 million was spent on pollution abatement.

In those years, the major items of expenditure were:

1966 - New high speed newsprint machine at the Laurentide mill in Grand'Mère.
Pontiac pulp mill.

1967 - Pontiac pulp mill ($39.6 million).

1968 - Increasing the capacity of the kraft linerboard mill at New Richmond, Quebec.

1969 - Ditto together with expansion of U.S. converting operations.

1970 - German operations (Bremen and Lubbecke).

1973 - Purchase of No. 9 newsprint machine from E.B. Eddy Company for Shawinigan, Quebec.
Pontiac pulp mill "fines digester" and a new industrial bag and flexible packaging plant at Brantford, Ontario.

1974-75 Speed-up of the No. 1 newsprint machine at Port Alfred and additions to the Neuberg corrugated container plant in South Germany.

FINANCIAL

The discussion of the Consolidated Paper and Bathurst Paper merger outlined the mechanics of the amicable fusion of the two companies. However, subsequently, it was indicated that the financial difficulties of 1971 and 1972 were partly the result of poor industry conditions, but more importantly the result of the overly ambitious expansion program pursued by the two individual managements, and, subsequent to the merger, by the combined management of Consolidated-Bathurst.

The deterioration through 1973 and the recovery starting in 1974 is most dramatically demonstrated in the historical source and application of funds statements to be found in the table on page 123, Appendix VIII of this report. However, if poor earnings and an overly ambitious expansion program were the causes of CB's financial difficulties, what specifically were those difficulties, and what did CB management do to cure them? In brief, the evidence of increasing problems comprised:

- A decrease in working capital from a peak of $111.2 million at the end of 1969 to $82.5 million and $77.3 million at the end of 1971 and 1972 respectively.
- After tax write-offs and write-downs of uneconomic assets totalling $12.3 and $49.1 million in 1970 and 1971 respectively.
- Common dividend cut in 1968 and omitted in second half of 1970 (through December 1973).
- Preferred dividend omitted in 1971 (through the third quarter of 1972).
- In 1971 CB was over-extended financially, and in technical default on some requirements in a loan agreement.

Under its new president CB began a program of retrenchment which was completed in 1972. Divisions which contributed most to the cash drain, especially Bulkley Valley and Concel, were disposed of.

Aside from the divestment of Bulkley Valley, other measures to conserve liquid resources were as follows:

a) Reduction of capital expenditures from $22.9 million in 1970 to $10.5 million in 1971.

b) No dividends were declared in 1971 on the preferred shares (nor on the common shares) of CB or Bathurst Paper Limited.

At December 31, 1971, the arrears of CB's preferred share dividends totalled $2,833,716 representing three quarterly dividends normally payable in 1971 and the non-declaration of the dividend normally payable on February 1, 1972. The arrears on the preferred shares of Bathurst Paper Ltd. were $315,000 representing three quarterly dividends normally payable in 1971 and the non-declaration of the dividend normally payable on March 1, 1972.

Because of the gravity of CB's financial situation, subsequent to the 1971 year-end arrangements were made by CB's principal bankers the Royal Bank

and Bank of Montreal to enable CB to provide security for certain bank debts, including conditional pledge of the shares of the company's German subsidiaries to secure the DM 80 million term loan agreement on which principal repayments were not to begin until 1975. Concurrently, in co-ordination with CB's principal bankers, arrangements were made to re-organize the U.S. $12 million loan consortium. The consortium of U.S. banks agreed, pending the re-organization, to relieve the company of its obligation to comply with the indebtedness to tangible net worth test, to the extent that this test was adversely affected by the extraordinary charges made to earnings at December 31, 1971. (In other respects, the company had complied with its obligations under this agreement, including the debt servicing and working capital tests). Subsequently (January 1973) The Royal Bank and Bank of Montreal acquired all the notes outstanding under this loan and future repayments were thereafter made in Canadian dollars.

As explained previously, CB divested itself of Bulkley Valley effective February 1, 1972 and disposed of the U.S. tissue division by selling all of its shares of Concel Inc. to APL Corp. of Great Neck, N.Y.

CB also phased out the wood container operation at Markham, Ontario. Losses involved on these three items were written off against the provision set up for this purpose in 1971.

In 1973, 1974 and first half 1975 cash flow improved substantially with the increasingly buoyant industry conditions. Part of the recovery was the result of additional improvements made under Mr. William Turner's direction (for example, the Pontiac mill refinements). Also the judicious assessment of the timing of the turnaround in the pulp and paper fundamentals was of benefit: in 1972 CB's marketing strategy correctly anticipated the strong rise in demand for pulp and paper products, particularly newsprint, in the second half of 1972. Production had been scheduled accordingly and sufficient product was available for sale.

Finally in 1974 and 1975, with the extremely astute handling of the Price/Abitibi transaction and its resultant cash/share benefits, with the sale of Anticosti Island, and in March 1975 with the CB Pontiac Limited $35 million first mortgage bond issue, the restoration of financial strength and stability to CB's balance sheet was complete.

CONSOLIDATED-BATHURST AT PRESENT

PLANT CAPACITY

This study began with a description of the different capacities of Consolidated Paper and Bathurst Paper at the time of the merger in 1966, followed by an account of some of the changes since that time.

Following is a comparison, in summary form, of the plant capacities at the end of the period with those at the beginning:

TABLE V

PLANT CAPACITIES OF CONSOLIDATED-BATHURST

Consolidated Paper	1967	1975
Newsprint (000's tons)	1,034 (32 lb. basis)[1]	1,088 (32 lb. basis)
Kraft "	83	83
Boxboard "	32	35
Pontiac Pulp "	165	205
Bathurst Paper		
Corrugating Medium & Boxboard (000's tons)	180	130[2]
Linerboard	220	220[3]
Containers (MMM sq. ft.)	2.9	4.2

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(1) 1967 effective capacity at 1,034,000 is overstated by upwards of 10% or 100,000 tons, since that tonnage would not have met today's quality requirements. Thus a better comparison would be 1967: 934,000 tons versus 1975: 1,088,000 tons.

(2) Some paperboard capacity has been shut down as certain products became unprofitable.

(3) The 1967 linerboard capacity is overstated since the company could not have produced 220,000 tons of linerboard and met today's quality requirements.

Note: Appendix IV and V (pages 119-120) detail mill and converted products shipped from 1965 to 1975.

MARKET SHARE

CB is a major factor in several key pulp and paper products, but cannot be said to be the dominant force in any, with the possible exception of the paperboard area. We do not believe that CB is the overriding price setter in any of its four key product areas.

CB's 1974 market share for its mill products was as follows:

TABLE VI

SCHEDULE OF CB'S 1974 MARKET SHARE
FOR ITS MILL PRODUCTS

	CB's Shipments (Tons)	Total Cdn. Shipments (Tons)	Share of Canadian Shipments Per Cent
Newsprint	1,006,000	10,034,000	10.0
Pulp	235,000	5,067,000	4.6
Paperboard	431,000	2,378,000	18.1
Kraft Paper	75,000	697,000	10.8

EMPLOYEES

The table below is designed to illustrate the effect on employment in Canada of Power Corporation's management of Consolidated-Bathurst. Statistics at the end of 1970 would be more relevant than those at the end of 1971, but they were not available.

TABLE VII

CB: NUMBER OF EMPLOYEES

	December 31 1971	December 31 1974
Cdn. Employees	10,537	12,743
U.S. Employees	24*	22
German Employees	2,281	2,314

* - Note the 1971 figure excludes 1,100 employees for CB's subsidiary Concel Inc. which was subsequently sold.

Thus it appears that the influence of Power Corporation has had a favourable impact on creating employment in Canada (21% in the period 1971-74). In fact, the impact on employment in Canada is understated by these statistics, since PCC's contribution has been one of saving, as well as of creating, jobs. Without its involvement and backing in 1971 and 1972, CB could well have gone bankrupt, thus jeopardizing thousands of jobs.

BALANCE SHEETS, EARNINGS AND SOURCE
AND APPLICATION OF FUNDS STATEMENTS

Comparative balance sheets, earnings and source and application of funds statements are given at the end of this report.

We would avoid detailed comment beyond drawing attention to the impressive improvements in balance sheet, earnings and working capital position from the low points in the 1970-1971 period through to 1974.

POWER CORPORATION'S INVOLVEMENT IN CONSOLIDATED-BATHURST

In Appendix IX, we detail PCC transactions in shares of Consolidated Paper and Bathurst Paper. In our view, the following deserve particular note:

1. Repatriation of the St. Regis Paper Co's. holding of Consolidated Paper Co.: On January 1, 1960, Consolidated Paper acquired certain assets of St. Regis Paper Co. (Canada) Ltd.. The assets included all the St. Regis multiwall bag and packaging system manufacturing facilities in Canada.

   The cost of the purchase was $1.6 million cash and the issue of 785,000 shares of the company to St. Regis' parent company in New York. The price amounted to about $35 million based on the value of the shares at that time.

   In March 1965, the block of 785,000 common shares of Consolidated Paper held by St. Regis Paper Co. was purchased by Power Corporation of Canada Limited and thus repatriated to Canada.

2. The Merger of Bathurst Power and Paper and Consolidated Paper: At the beginning of this report, we have described the merger of the two companies as at the end of 1966. Before the merger Power Corporation held 925,000 common shares (15.6%) of Consolidated Paper, and approximately 30.7% of Bathurst Paper common stock on a fully converted basis. This non-arm's length transaction has been described earlier.

3. 1970 Share Exchange Offer by Power Corporation for Consolidated-Bathurst: On March 31, 1970 Power Corporation of Canada Limited made a formal offer to acquire all the common shares of CB not already held on the basis of 2½ common shares of Power Corporation for each CB held. Prior to the offer, PCC held, directly or indirectly, 994,700 shares or 16.6% of CB's common stock. The offer originally was to expire on April 21, 1970 but was extended to June 2, 1970. The Directors of CB passed a motion on April 13, 1970 recommending acceptance of the share purchase offer. By June 30, 1970, a total of 1,133,898 shares were deposited under the offer, which together with the original holding gave Power a total interest of 2,128,598 shares, or 35.2% of the 6,042,605 shares outstanding at that date. Perhaps because of the difficulty perceived in the market place of valuing PCC shares, together with negative comments along those lines in the financial press at that time, PCC fell well short of its goal of achieving majority control of CB by the share exchange offer.

MANAGEMENT AND DIRECTION

We have previously pointed out that from the date of the Consolidated Paper/Bathurst Paper merger (December 1966), through Mr. Desmarais's entry into the Power Corporation picture (spring of 1968) and up to late 1970, PCC held only 16% of CB common stock and was not able to participate actively in the management of CB's affairs.

However, when Power Corporation increased its position through the share exchange offer of 1970, Power's President, Mr. W.I.M. Turner, Jr. was appointed President of CB. This marked the first major involvement of a member of the Power Corporation team in the day-to-day management of Consolidated-Bathurst. Power was now able to control management, working through the Board of Directors. It should be noted that Mr. Paul Desmarais also serves as Chairman of the Executive Committee of CB.

Undeniably, CB's problems at that time (1970-1971) were to some extent the direct result of the problems of the industry at large - oversupply and weak prices. However, superimposed on that were CB's own difficulties - principally the result of its U.S. tissue venture and its involvement with Bowaters in Bulkley Valley Forest Industries. As described earlier, CB successfully divested itself of these two drains on liquid resources in 1971-1972 but had to take a mammoth $70 million write-off; in addition, the debt was re-organized. Thus, CB was well placed to take advantage of the market improvement starting in the second half of 1972, which it had foreseen. Earnings per share results from 1972 through 1974 bear strong witness to this.

In 1974, a series of actions by the CB management resulted in a material improvement in its financial position. Mr. Paul Desmarais, together with CB President, Mr. W.I.M. Turner, Jr. and his team were actively involved in the Price Abitibi takeover bid.

We have previously described how, through the acquisition of the U.K. group's shares of Price Company and the subsequent sale of just over half of those shares to Abitibi, CB shareholders benefited to the extent of an immediate cash infusion of $24½ million into the company.

We should also point out that by issuing equity for the Price shares and subsequently selling over one-half of those shares for cash, CB successfully completed the only major Canadian equity financing of 1974 and materially improved its debt/equity ratio. Sale of Anticosti Island also enhanced its situation. With the subsequent $35 million bond issue by Consolidated-Bathurst-Pontiac Limited, a wholly owned subsidiary of CB, (trust indentures negotiated by previous management were too restrictive to allow CB, the parent company, to raise sufficient debt) management further strengthened the company's liquid resources.

In the 1972-1974 period industry fundamentals were improving generally. However, under the guidance of Mr. W.I.M. Turner, Jr. and with the backing of Power Corporation, Consolidated-Bathurst's profit improvement from a loss of $0.45 per share in 1971 to a profit of $7.10 per share in 1974 far outstripped that of the industry as a whole. At the same time, its working capital and balance sheet situation were enhanced significantly.

SUMMARY AND CONCLUSION

In sum, we believe that the active participation of Power Corporation of Canada, Limited in the management of the affairs of Consolidated-Bathurst Limited - dating largely from the end of 1970 - has been beneficial both to the minority shareholders of CB in particular and to the Canadian economy in general.

As evidence we would cite especially:

For Minority Shareholders

a) Rescue from near bankruptcy in 1971.

b) Earnings recovery in the 1971 to 1974 period superior to normal industry experience.

c) Restoration of balance sheet through improved cash flow and astute financial transactions in 1974.

d) Restoration of excellent level of common dividends in 1974.

e) Current common stock price of $36 compared to the 1971 low of $5¼.

For Canada as a Whole

a) Preservation of jobs in Canada by radical surgery, particularly in the U.S. operations.

b) Repatriation to Canada of the U.K. block of Price Company shares.

c) Federal, Provincial and Municipal taxes paid in 1975 of $35 million.

d) Expenditure of $18 million on pollution abatement from 1966 to 1974.

CONSOLIDATED-BATHURST LIMITED

CAPITAL STRUCTURE AS AT DEC. 31, 1974

As at December 31, 1975, the capital stock of the company comprised the following:

Preferred shares of the par value of $25 each.

Authorized-
3,234,440 shares of which 1,234,440 shares are designated as 6% cumulative redeemable preferred shares, 1966 series.

Issued- 1,122,684 preferred shares 1966 series	$28,067,000

Class A Common Shares without nominal or par value.

Authorized-
15,000,000 shares

Issued- 7,036,107 shares	$86,197,000

Class B Common Shares without nominal or par value

Authorized-
15,000,000 shares

Issued- 203,927 shares	$ 2,498,000

Note: As at December 31, 1975, 224,715 share purchase warrants were outstanding, exercisable at $20 per share and expiring on November 15, 1978. They were initially issued with the Series C Sinking Fund Debentures.

CONSOLIDATED-BATHURST LIMITED

SCHEDULE OF CHANGES IN EQUITY STRUCTURE
(with comments) 1965 to 1975
(000 Dollars)

	1965	1966	1967	1968	1969	
Capital Stock -						
Preferred	-	33,138 (1)	47,229 (2)	47,229	47,229	
Common	36,543	36,543	36,543	36,543	38,425 (3)	
	1970	**1971**	**1972**	**1973**	**1974**	**1975**
Capital Stock -						
Preferred	47,229	47,229	47,229	47,228	31,078 (7)	28,067 (7)
Common	39,337 (4)	39,337	39,518 (5)	42,091 (6)	88,626 (8)	88,695 (9) (Class A & B)

COMMENTS

(1) Offers were made on November 28, 1966 (good for the subsequent four month period) to the holders of Class A and common shares of Bathurst Paper Limited for the exchange of their shares on the following basis:

a) Two 6% cumulative redeemable preferred shares 1966 series and five share purchase warrants of the company for each Class A share of Bathurst Paper Limited.

b) One 6% cumulative redeemable preferred share 1966 series and one-half share purchase warrant of the company for each common share of Bathurst Paper Limited.

Majority control was acquired by December 16, 1966, and by December 31, 1966, 1,325,514 6% cumulative redeemable preferred shares 1966 series and 662,757 share purchase warrants had been issued for 244,177 Class A and 837,160 common shares of Bathurst. These 1,325,514 preferred shares, valued at their par value of $25 per share, thus represent the cost of the company's investment in Bathurst Paper Limited of $33,137,850.

(2) By April 21, 1967, a further 484,079 shares 1966 series and 242,039 share purchase warrants had been issued in exchange for 132,432 Class A and 219,215 common shares of Bathurst. This brought the total 1966 series preferred issued to 1,889,144 shares with a value at $25 of $47,228,600.

On May 17, 1967, the Supreme Court of New Brunswick prescribed that notices be forwarded under Section 128 of the Canada Corporations Act authorizing the enforcement of the balance of the Class A and common shares of Bathurst.

(3) Additional common shares issued in 1969 were the result of:

a) The Executive Employee Stock Purchase Plan established by Consolidated-Bathurst in January 1969 (applications received by March 1969 for 82,526 common shares).

b) A stock purchase plan established in 1965 by Bathurst Paper Limited.

(4) During 1970, 42,020 common shares were issued under the terms and conditions of Consolidated-Bathurst's Stock Purchase Plan and 30 common shares were issued on the exercise of 1968 Share Purchase Warrants.

(5) To December 31, 1972, options had been granted to a number of senior employees to purchase, at a price of \$10 5/8 per share, 282,000 common shares of the company including 240,000 to Officers of the company of whom one was a Director. One-fifth of these options were exercisable between July 1 and December 31 in each of the years 1971 to 1975 on a cumulative basis (subject to acceleration and termination in certain specified events) and in any event, subject to termination no later than December 31, 1975. During 1972 options were exercised to purchase 17,000 common shares of the company (including 15,000 common shares by an Officer).

(6) During 1973 a further 242,200 common shares were issued at \$10 5/8 as a result of the exercise of options by senior employees.

(7) During 1974 CB acquired for cancellation 646,025 (of which 644,425 were cancelled by year-end) of its preferred shares, 1966 series in exchange for 337,822 common shares of Price Company, Limited and cash of \$7,211,000. The aggregate cost of the cancelled preferred shares was recorded at \$11,391,000 and the gain of \$4,760,000 on the purchase for cancellation of the preferred shares was applied to reduce the excess purchase price relating to the acquisition of Bathurst Paper Limited. The total reduction in value of the preferred shares was thus as follows:

1973	\$47,229,000	Aggregate Cost	\$11,391,000
1974	31,078,000	Plus gain	4,760,000
	\$16,151,000		\$16,151,000

During 1975 CB acquired for cancellation 120,435 of its preferred shares (of which 119,535 were cancelled by year-end), at a cost of \$2,019,000 having a book value of \$3,011,435.

(8) The increase in common share capital of \$46,534,000 is explained as follows:

a) Pursuant to agreements made on November 20, 1974 with a United Kingdom group, the company issued as fully paid 930,385 common shares at a stated value of \$50 per share totalling \$46,519,250 in consideration for the transfer to the company of 1,860,770 common shares of Price Company Limited.

b) In 1974 options to senior employees on 1,400 common shares were exercised at $10 5/8 each for a value of $14,875.

(9) In 1975 the common shares were reclassified as Class A common shares and Class B common shares were created. The two types are inter-convertible and are identical except that dividends on Class B shares are paid out of tax paid undistributed surplus.

CONSOLIDATED-BATHURST LIMITED

LONG-TERM DEBT

	1975
5.10% Series A Sinking Fund Debentures, 1990 (U.S. $16,191,000)	$ 17,411,000
5 5/8% Series B Sinking Fund Debentures, 1991 (U.S. $14,950,000)	16,094,000
8 1/8% Series C Serial Debentures, 1976 to 1978	3,750,000
8% Series C Sinking Fund Debentures, 1993	15,000,000
Term Bank Loans	
Canadian, prime plus 1½%, due 1976 to 1979	2,324,000
German, various interest rates (see note a) (DM 80,938,000)	21,702,000
Bathurst Paper Limited	
6% First Mortgage Sinking Fund Bonds, Series A, 1984	10,680,000
6% Series A Sinking Fund Debentures, 1984	6,284,000
Consolidated-Bathurst Pontiac Limited	
11% First Mortgage Sinking Fund Bonds, Series A, 1995 - holders have the right to elect repayment in 1985	35,000,000
Dominion Glass Company Limited	
9½% Series A Sinking Fund Debentures, 1990	25,000,000
Other	2,470,000
Subsidiaries in the Federal Republic of Germany	
Principally term bank loans at various interest rates, due 1976 to 1986 (DM 47,239,000)	15,466,000
Other Subsidiaries	2,395,000
	173,576,000
Less:	
Long-term debt due within one year, before deducting foreign exchange gains or adding foreign exchange charges	5,700,000
Bonds and Debentures held for Sinking Fund requirements	4,282,000
	$163,594,000

(a) DM 938,000 interest 7½%, due 1976 to 1978.
DM 80,000,000 of which:
DM 20,000,000, being the instalment originally due July 1975, renegotiated to August 1980, interest at a floating rate, currently 7¾%, and
DM 60,000,000, interest at the rate of 7½% due in instalments of DM 20,000,000, 1976 to 1978.

The DM 20,000,000 due in 1976 is included as long-term debt as the lenders have indicated their willingness to consider the postponement of this instalment for a term of five years.

The shares of the wholly-owned German subsidiaries have been conditionally pledged to secure the DM 80,000,000 loan.

(b) Based on rates of exchange in effect at March 15, 1976, the net cost of repayment of debentures and loans due in foreign currencies at December 31, 1975 (after having provided $12,126,000 for estimated potential foreign exchange charges on repayment of the Company's German term bank loans and excluding the debt of German subsidiaries) is less by approximately $5,548,000 than the Canadian dollar amounts recorded in the accounts.

(c) Estimated payments, net of bonds and debentures held for sinking fund requirements and based on rates of exchange at March 15, 1976, required to meet all maturities and sinking fund requirements annually to 1985 are: 1976 - $5.8 million; 1977 - $15.8 million; 1978 - $17.1 million; 1979 - $9.4 million; 1980 - $16.7 million; 1981 - $16.3 million; 1982 - $8.5 million; 1983 - $8.4 million; 1984 - $11.5 million; 1985 - $6.9 million.

CONSOLIDATED-BATHURST LIMITED

SCHEDULE OF MILL PRODUCTS SHIPPED
(Thousands of Tons)

	1965*	1966*	1967	1968	1969	1970	1971	1972	1973	1974	1975	
	784	853	795	777	842	866	792	912	965	1006	842	Newsprint
	-	-	1	100	177	170	200	227	233	235	147	Pulp
***	65	69	330	450	480	486	411	461	485	431	309	Paperboard
	68	75	77	79	80	75	80	79	79	75	36	Kraft Paper
	-	-	60	60	81	78	71	**	-	-	-	Tissue

* - Consolidated Paper Corporation figures for 1965-6.

** - U.S. tissue subsidiary (Concel) sold in 1972.

*** - Includes Germany from 1968.

APPENDIX V

CONSOLIDATED-BATHURST LIMITED

SCHEDULE OF CONVERTED PRODUCTS SHIPPED

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Lumber (Thousands of Board Feet)	49,918	71,292	69,792	81,359	67,581	69,160	72,664	79,269	74,538	67,673	71,157
Bags (Tons)	34,980	35,640	35,860	31,020	30,114	27,831	24,698	26,038	28,188	33,252	21,438
*** Containers (Millions Square Feet)	1,829	1,899	1,959	3,770	4,065	4,191	4,309	4,776	5,073	4,691	4,733
Folding Cartons (Tons)	-	-	-	18,655	18,870	15,347	16,333	14,613	19,282	17,065	19,000
Tissue Products (Tons)	30,000	31,000	65,600	67,400	66,850	68,040	70,797	**	-	-	-
Glass (Tons)	-	-	-	-	-	-	-	-	366,899	544,172	528,284

** - U.S. tissue subsidiary (Concel) sold in 1972.

*** - Includes Germany from 1968.

CONSOLIDATED-BATHURST LIMITED

DISTRIBUTION OF REVENUE

Year-ended December 31, 1975

	Millions of Dollars	Per cent
Material, Supplies, etc.	$264	40.6
Wages, Salaries and Fringe Benefits	232	35.6
Fuel and Power	43	6.6
Depreciation and Depletion	26	4.0
Federal, Provincial and Municipal Income Taxes	35	5.4
Interest	19	2.9
Dividends	16	2.4
Retained Earnings (excluding extraordinary items)	16	2.5
	$651	100.0%

APPENDIX VII

CONSOLIDATED-BATHURST LIMITED

SELECTED STATISTICS - INCOME AND SURPLUS ACCOUNT

YEAR ENDED DECEMBER 31, 1966-1975
($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Sales	643.7	689.0	497.7	348.1	343.2	353.9	348.1	295.5	242.2	234.5
Operating Profit	90.8	122.6	68.2	36.7	29.2	34.0	47.3	41.4	42.3	47.8
Misc. Revenue	1.7	1.1	2.2	2.2	1.7	1.2	0.5	0.8	0.6	0.6
Income from Investments (Inc l. profit on sale)	5.9	3.4	0.4	0.2	1.3	1.3	0.7	1.0	1.5	1.5
	98.4	127.0	70.7	39.1	32.2	36.5	48.5	43.2	44.4	49.8
Less Deprec. and Depletion	26.1	25.7	21.5	16.5	17.9	19.2	20.5	18.5	13.7	11.4
Interest (long-term debt and other)	18.8	18.4	14.5	10.6	12.8	13.5	11.8	9.9	4.6	2.9
Income tax Current	12.9	16.1	4.4	1.5	1.4	0.8	2.8	2.0	(0.8)	2.3
Deferred	7.4	18.4	9.8	3.2		2.7	3.2		9.4	12.4
Net income from operation	32.6	47.7	19.9	7.3	0.1	0.3	10.2	12.8	17.5	20.8
Net After Incentive Grants, Extraordinary and non-recurring items	32.6	62.3	19.0	6.2	(49.9)	(11.1)	11.2	10.9	17.0	20.8
Earnings per common share before incentive grants, extraordinary and non-recurring items	4.26	7.10	2.74	0.74	(0.45)	(0.42)	1.23	1.69	2.48	3.05
Dividends Per Common share	2.00	2.25				0.50	1.00	1.00	2.00	2.00

APPENDIX VIII

CONSOLIDATED-BATHURST LIMITED

SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1966-1975
($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
SOURCE										
Net Income	32.6	47.7	19.9	6.6	(49.4)	(10.8)	11.6	11.2	17.2	20.8
Deferred Income tax	7.4	18.4	9.8	3.2		(5.0)	3.2	5.1	9.0	13.3
Depreciation and Depletion	26.1	25.7	21.5	16.5	17.9	19.2	20.5	18.5	13.7	11.4
Minority, Extraordinary charges Adj. taxes in prior year (1970 only)	0.4	0.7	0.6	0.2	49.5	20.5				
Realization Investment & Sale of Property	0.5	55.7	3.9	3.0	5.2	0.4	0.8	3.9		
Increase to long-term debt	25.0				0.4	1.4	17.1	46.7	23.9	64.1
Share issue proceeds	0.1	46.5	2.6	0.3		0.9	1.9		1.6	0.5
Amort. Prodn. Expense, Grants, Woodland Deprn. & Other items		1.2	0.7	1.3	0.3	0.2	0.6	11.3	5.6	1.9
		$195.9	$ 58.9	$ 30.6	$ 24.1	$ 26.9	$ 55.5	$ 96.6	$ 71.0	$111.9
APPLICATION										
Capital Expen.(1)	49.8	84.6	30.2	15.0	10.5	23.0	25.7	16.2	63.6	56.6
Dividends	16.2	17.6	6.4	2.4		6.2	9.1	9.1	15.0	14.5
Investment in Assoc. and Subsidiary	0.2	11.7	2.3		7.5	3.8	5.2		26.7	2.1
Long-Term Debt		11.8	13.9	10.9	11.0	10.9	7.0	8.8	3.5	3.0
Preferred shares purchased		11.4								
Increase in long-term investments				2.4	1.0	2.8	4.7			
Other items		6.9	2.3	5.2		2.1	2.6	4.6	8.1	3.4
		$144.0	$ 55.2	$ 35.8	$ 29.9	$ 48.8	$54.4	$ 38.7	$116.9	$ 79.8
Working Capital Change		52.0	3.8	(5.2)	(5.9)	(21.8)	1.1	58.0	(45.9)	32.1

(1) Includes acquisition of investments $47.6 million in 1974.

POWER CORPORATION OF CANADA, LIMITED'S

INVOLVEMENT IN CONSOLIDATED-BATHURST LIMITED

SHARE TRANSACTIONS BY PCC IN CONSOLIDATED PAPER AND BATHURST PAPER

A detailed record of PCC's share balances follows:

POWER CORPORATION'S SHARE TRANSACTIONS

Bathurst Power and Paper Company Limited

Class "A" & Class "B"		Class "A"	Class "B"
Balance - Dec. 31/1929		2,500	
	1930	4,500	
	1931-1933	8,990	
	1934-1935	5,995	
	1936-1944	5,000	
	1945	10,900	
	1946	35,045	
	1947	36,495	
	1948	41,000	
	1949	42,500	
	1950-1953	43,275	
	1954-1956	46,875	
	1957	47,000	
	1958-1959	47,355	
	1960-1966	48,360	
Balance - Dec. 31/1929			625
	1930		701
	1931-1932		1,793
	1933-1936		39,003
	1937-1944		50,000
	1945-1947		50,500
	1948-1949		80,500
	1950-1951		80,700
	1952		146,700
	1953-1955		147,725
	1956		153,725

	Bathurst Common	Bathurst Class "A"	Bathurst Class "B"	Cons. Paper Preferred
November 1/61	-	48,630	154,000	-
Nov. 6/61 - Exchange 2 common for 1 Class "B"	308,000		(154,000)	
	308,000	48,630	-	-
Purchased & Sold 1962 to 1966	156,807 (6,900)			
	457,907	48,630		
Dec. 19/66 - Exchange Bathurst common one for one Cons. Paper	(457,907)			457,907
and				
Bathurst Class "A" 2 Cons. Paper for each Bathurst "A"		(48,630)		97,260
	Ø	Ø	Ø	555,167

Consolidated Paper

Balance - Dec. 31/	Common	Preferred
1965	925,000 (1)	(2)
1966	925,000	555,167
1967*	925,000	491,200
1968	975,000	331,700
1969	975,000	331,700
1970	2,204,858	89,800
1971	2,204,858	89,800
1972	2,204,858	269,800
1973	2,714,858	-
1974	2,756,358	-
1975	2,759,358**	

(1) Includes 785,100 purchased from St. Regis Paper Co.

(2) PCC owned 457,907 common and 48,630 Class "A" Bathurst Paper - converted to Cons. Paper preferred in 1966.

* - Name changed to Consolidated-Bathurst Limited, September 30, 1967.

** - Equivalent to 38.1% of Consolidated-Bathurst shares issued and outstanding as at December 31, 1975.

CONSOLIDATED-BATHURST LIMITED

CONDENSED BALANCE SHEET

YEAR ENDED DECEMBER 31, 1966-1975

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Current Assets	292.0	287.3	203.8	151.8	158.7	169.4	167.7	161.8	143.5	138.0
Other Investments-Cost	26.4	26.5	11.0	18.3	17.8	32.9	26.3	16.5	26.7	18.5
Other Assets	5.3	6.0	7.1	5.3	6.2	6.3	9.4	9.4	36.2	11.2
Fixed Assets, Deprec.	338.6	316.9	313.1	255.0	274.3	282.4	295.0	289.2	276.7	227.2
	$662.4	$636.6	$535.0	$430.4	$457.0	$491.0	$498.3	$476.9	$483.0	$394.9
Current Liabilities	132.9	154.2	122.7	74.5	76.2	81.0	57.5	52.7	96.3	44.9
Deferred tax reserve	82.9	75.3	58.2	42.8	39.6	42.0	47.0	43.8	48.7	39.7
Deferred credit and loss provision	17.6	20.1	19.6	18.8	33.1		1.0	2.0	5.0	
Long-term debt	163.6	134.8	144.6	132.9	151.0	161.5	171.0	161.0	117.5	97.1
Minority Interest	6.3	6.5	19.7	6.0	6.0	6.0	6.3	6.3	6.2	20.0
Capital Preferred	28.1	31.1	47.2	47.2	47.2	47.2	47.2	47.2	47.2	33.1
Common	88.7	88.6	42.1	39.5	39.3	39.3	38.4	36.5	36.5	36.5
Surplus	18.4	18.4	18.4	18.4	18.4	18.4	18.4	18.2	18.1	18.1
Retained Earnings	123.9	107.5	62.5	50.3	46.1	95.6	111.6	109.1	107.5	105.4
	$662.4	$636.6	$535.0	$430.4	$457.0	$491.0	$498.3	$476.9	$483.0	$394.9

DOMINION GLASS COMPANY LIMITED

TABLES

APPENDIXES

DOMINION GLASS COMPANY LIMITED

DESCRIPTION OF COMPANY

Dominion Glass Company Limited is the largest manufacturer of glassware in Canada. It manufactures and markets glass products including containers, tumblers, tableware and industrial products. Through affiliated companies it also is active in the production and sale of plastic products, primarily containers. Over 2,000 different glass containers and similar products are sold to some 3,000 customers throughout Canada. The major market areas for the company's containers, in order of importance, are the food processing, alcoholic beverage, soft drink, cosmetic, pharmaceutical, chemical and dairy industries. No single customer accounts for more than 4% of revenue and the ten largest customers total less than 25% of revenue.

Sales of containers are generally on a contract basis directly to corporate customers, although some of the smaller industrial customers are served through distributors. A portion of the container business is in stock items which are designed for universal use rather than items custom made to a particular customer's specifications. In the case of sales of tableware and tumblers, the items are generally sold through distributors, with relatively small amounts being sold directly. Industrial glass items, which make up a relatively small amount of the total volume of the company, are sold directly to the appliance and electrical manufacturers involved.

Growth of the rigid container industry has been at an average real rate of 4% to 5% throughout the past decade. The growth in the initial part of the period was stronger, but it trailed off in the latter years. (The overall glass container market declined by 5% to 6% in 1975.) Several trends in the industry, such as convenience packaging, and competition from metal and plastic containers, have made sizable changes in market requirements during recent years.

Manufacturing Facilities

During the past decade DG's annual production capacity has increased some 60% from 430,000 tons to 706,000 tons. Its plants are operating at about 80% of that capacity level with the Western level of operations at a lower rate than in the East.

In the five years ending 1974, DG spent more than $51 million on expansion and modernization of its facilities compared with a total of $22 million in the prior five years. A large part of the recent expenditures had been devoted to the establishment of a new plant in Bramalea, Ontario, at a cost of $22 million; that plant, situated on 56 acres of land, had the most up-to-date production facilities available at the time. The company has also significantly upgraded its other plants, most notably in Montreal, Quebec; Wallaceburg and Hamilton, Ontario; and in Alberta and British Columbia.

Subsidiaries and Affiliates

Dominion Glass participates in the plastic container and other plastic products business through ownership of Twinpak Limited. During 1973 the company sold its assets in the plastic container moulding industry to Twinpak and acquired a 50% interest in the resulting enlarged operation. In 1976 Dominion Glass acquired the remaining 50% for cash. Twinpak makes blow-moulded containers in a large new Toronto plant, has flexible-tube making facilities in Granby, Quebec, and a diverse manufacturing and sales operation at its main site in Dorval, Quebec. Twinpak was formerly owned by Consolidated-Bathurst Limited.

Dominion Glass owns 100% of National Pressed Glass Limited, which is situated in Brantford, Ontario, and manufactures industrial glass items primarily for the electrical and appliance industry, with about 60% of its output being shipped to the United States. Since acquisition in early 1970, the capacity of this subsidiary has been quadrupled.

Dominion Glass owns all the shares of Canadian Western Power and Fuel Company Limited, which has natural gas acreage near the company's plant in Redcliff, Alberta. Output is largely used at DG's plant adjacent to the properties, although sales are also made to the town of Redcliff and to surrounding industry.

In late 1974, DG purchased the shares of Dorchester Electronics Limited, a small company which designs and manufactures radio-record players, electrical switches and plastic items, and has minor operations in metal stamping and in machine shop products.

Warehousing

Dominion Glass owns over 3.0 million square feet of warehousing space and has an additional 700,000 square feet under long-term lease. Typically, the company stores glass containers against contracts that require delivery of the product at a later date to the customer's food or beverage processing line.

Engineering and Development

The company undertakes a considerable range of applied research and development activity in glass. These activities include design and development of manufacturing techniques, process development, and product uses. Design, manufacture, and testing of moulds for glass production is carried out in Hamilton, Ontario, by some 165 employees. DG also maintains an engineering and research facility in the Ontario Research Foundation development at Sheridan Park where basic and applied research and engineering activities are carried on by 85 employees. In addition, each plant has a modest engineering and technical staff for local applications.

Previously, from 1965 to 1970, Dominion Glass had a technical assistance agreement with Owens-Illinois Inc., the leading producer of

glass containers in the U.S. The agreement made available to Dominion Glass all the commercially used technology and patented inventions of Owens-Illinois in the glass container field, together with access to their multi-million dollar research and development program. Dominion Glass paid a fee based upon its sales.

Suppliers

Manufacture of glass containers involves the batch preparation of raw materials, primarily sand, limestone and soda ash. Raw materials are purchased from a number of suppliers and could readily be obtained from alternative sources. The principal fuel used by DG is gas, which, in the case of the Redcliff plant, is obtained from the company's own wells.

Employees

Dominion Glass and its subsidiary companies have about 4,900 employees across Canada of which 4,200 are represented by unions. About 2,900, or 60% of employees are located in Ontario and 1,400, or 25%, are in Quebec.

SUMMARY OF MAJOR CHANGES, 1965-75

Power Corporation of Canada, Limited bought control of Dominion Glass in May 1967. This should be borne in mind in assessing the significance of changes that occurred at various times.

Capital Expenditures 1965 to Present

Total amount of expenditures (including furnace rebuilds) have been as follows over the last 11 years:

TABLE I

ANNUAL CAPITAL EXPENDITURES, 1965-1977
(Millions of Dollars)

1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	To date
5.4	1.7	3.3	6.7	7.8	20.9	7.2	4.0	6.8	7.5	7.9	79.2

Although plant capacity has been increased from 430,000 tons in 1965 to 706,000 tons at present, the increments have been insufficient to keep up with the growth of the market. As pointed out on page 60 DG's market share declined between 1968 and 1974, although some was regained in 1975 on account of strikes at two plants of a competitor.

The major items of capital expenditure have been as follows:-

1. British Columbia: New glass manufacturing facilities in Burnaby, B.C. were started up in November 1965 and quickly reached a satisfactory level of operation. The size of the plant was doubled in early 1969.

2. Toronto Plastics Plant: This plant commenced production early 1966. Plastic container volume and profits only built up very gradually. The plant site and buildings were sold and leased back in 1972. The equipment was sold to Twinpak in 1973. In 1974 newly built premises were occupied in Mississauga, Ont.

3. Wallaceburg, Ontario: In 1967 the capacity of the Number 2 furnace was doubled to expand facilities for production of flint glass containers.

In 1970 specialized facilities were installed at Wallaceburg to supply high-quality glass containers to the cosmetic and pharmaceutical areas.

In 1971 additional warehousing space was added and finally in 1974 equipment for production of coloured tumblers and tableware was installed. Currently a major program, to cost ultimately $6 million, is underway at Wallaceburg. This expansion will include the first all-electric glass furnace for production of tableware, and the total repair of a second furnace.

4. Bramalea, Ontario: The major capital expenditure item in the period was the construction of the modern Bramalea plant, completed in 1970 at a total cost of $22 million.

This operation had initial capacity of 125,000 tons with additional space for subsequent expansion. A $25 million sinking fund debenture issue in December 1970 financed the Bramalea construction.

5. Other Acquisitions: Effective January 1, 1976 Dominion Glass bought all the shares of Ampak Limited and its subsidiaries and associated companies, Cyrmac Plastics Limited, and Plant Kimble Ltd. Ampak is a national distributor of packaging materials, while Cyrmac is a manufacturer of injection moulded plastic proprietary products. Plant-Kimble Ltd. is a converter of tubular glass products and serves the pharmaceutical and laboratory market.

MANAGEMENT AND DIRECTION

With the purchase of control in 1967, the Power Corporation/Consolidated-Bathurst group immediately took an active part in bringing in new management. A comparison of the executive officers at the end of 1966 (there was no 1967 annual report due to the change in year-end), and the end of 1968 demonstrates the moves that were taken:

EXECUTIVE OFFICERS

1966	1968
L.J. Belnap, Chairman	W.I.M. Turner, Jr., Chairman
F.N. Dundas, President	E.A. Thompson, President & Chief Executive Officer
N.W. Meldrum, Vice-President and General Manager	E.G. Blyth, Vice-President Finance, Admin. & Treasurer

J.R. MacKenzie, Vice-President Manufacturing	W.M. Shottan, Vice-President Manufacturing
T.B. King, Secretary	
J.E. Glithero, Treasurer	T.B. King, Secretary

Mr. E.A. Thompson, the new president, was hired from outside the company; he previously worked for Domtar Limited.

EMPLOYEES

The number of Dominion Glass employees at the beginning of the period under examination (1966), before the involvement of Power Corporation (and Consolidated-Bathurst) and as at the end of 1974, and the tonnage of glass products produced were as follows:

TABLE II

NUMBER OF EMPLOYEES

	1966	1968	1975
Employees	4,600	4,684	4,773
Glass Tonnage	343,000	400,000	532,000

The 1975 figure for employees include those at Twinpak and National Pressed Glass. The increase in employment in the basic glass business is small because of substantial improvement in efficiency.

MARKET SHARE

There are two major companies in the industry in Canada, Dominion Glass and Consumers Glass, with Ahlstom Glass having one plant also involved. In addition, glass is imported from the United States. Another company Iroquois Glass was bought by Consumers Glass in 1967.

Precise market share numbers are not available. Some indication can be taken from annual sales of Consumers Glass and DG, even though these are distorted by sales of plastic and other products.

TABLE III

MARKET SHARE

Year	SALES		Per cent of total held by Dominion Glass
	Dominion Glass	Consumers Glass	
1968	$ 65.8 million	$36.7 million	64%
1974	111.4 million	94.2 million	54%

DG appears to have lost some market share during the period. Thus it cannot be said that the company has used its size to practise predatory pricing policies. Pricing is in fact much influenced by the U.S. price for glass (plus freight and duty).

FINANCIAL

A summary of annual sales, earnings and dividends for the period 1965-1975 is given in Table IV. Earnings were declining before Power Corporation bought control; (the management at that time had a reputation of being unenterprising). Earnings have subsequently been erratic but show a rising trend.

Dividend Policy

As shown by Table IV, DG's dividend policy since control was attained by Power Corporation in 1967 has not been generous. The repeated explanation in annual reports for the applicable years has been that Dominion Glass was conserving funds for expansion. At first sight this appears frugal. At the end of 1968 cash exceeded long-term debt and there were no short-term borrowings. A major capital program was completed in 1970. Subsequent earnings in the years 1972-75 total $13 million or $5.71 per share.

However, the December 31, 1975 capitalization shows that the company is short of cash, and has sufficient debt that any major expansion would strain its resources (Table V).

TABLE IV

SALES, EARNINGS AND DIVIDENDS: 1965-75

Year Ending	Sales	Earnings per Common Share	Dividend Per Common Share
Sept. 1965	$ 48.0	$0.68	$0.60
Sept. 1966	54.1	0.69	0.60
Sept. 1967	58.4	0.33	0.50
Dec. 1967	15.9	(0.06 def.)*	0.10
Dec. 1968	63.5	0.85	-
Dec. 1969	67.0	1.14	-
Dec. 1970	74.0	1.20	0.20
Dec. 1971	70.4	(0.68 def.)**	0.40
Dec. 1972	89.2	1.34	-
Dec. 1973	96.6	0.54	-
Dec. 1974	111.4	1.65	-
Dec. 1975	131.1	2.18	-

* - 3 months only
** - strike

TABLE V

CAPITALIZATION

DECEMBER 31, 1975

Current debt		$ 8,315,352
Long-term debt		25,760,407
Deferred income taxes		10,500,000
Shareholders' equity		
Preferred shares	2,290,670	
Common shares	4,759,096	
	7,049,766	
Retained earnings	39,656,472	$46,706,238

Taxation

Dominion Glass pays significant levels of direct and indirect taxation. For the year 1968 income and property taxes totalled $3,129,900, whereas for 1975 the comparable figure was $6,441,000.

In addition, federal and provincial sales taxes on goods and services purchased by DG totalled more than $1.0 million in 1975 compared with about $600,000 in 1968.

POLLUTION

In the past few years (especially in the 1970-71 period) the glass industry has been criticized by environmentalists. Dominion Glass has stated in writing that it recognizes the need to solve the problem of littering and the problem of solid waste disposal and that some of its products contribute to those problems. The company has made numerous suggestions to help solve these problems. Through the Glass Container Council of Canada it has supported research into waste disposal and reclamation systems. At its own plants it has endeavoured to recycle the maximum possible volume of used glass containers and to develop secondary products using waste containers (such as the road-paving program using waste glass in "Glasphalt").

POWER CORPORATION OF CANADA'S TRANSACTIONS IN DOMINION GLASS COMPANY LIMITED SHARES

In May 1967 Power Corporation of Canada and Consolidated-Bathurst jointly bid for 1,200,000 shares (50.3%) of Dominion Glass at $15/share.* Power was the largest individual shareholder of Consolidated-Bathurst but did not exercise managerial control at that time. More than 1,200,000 shares were submitted and they were taken up on a pro-rata basis. This transaction was not contentious.

The two companies increased their holdings by open market purchases in the following months to hold 660,647 shares each.

In September 1968 Consolidated-Bathurst sold its holdings of Dominion Glass to Power Corporation for $10.7 million (approx $15¾ per share) giving CB a profit of $500,000. This was effectively a re-arrangement within the Power Corporation group and had no effect upon the minority shareholders of DG.

Subsequently in April 1973, when Power had effective control over CB, Consolidated-Bathurst purchased Power's total holding of 1,359,344 shares of Dominion Glass (56.7% interest) for $13 per share in cash plus a maximum of $3 per share additional to be paid in 1977 contingent upon subsequent earnings of Dominion Glass. This was a further re-arrangement within the Power group and once again had no effect upon the minority shareholders of DG.

The reasons given for the transaction were:

a) All of Power's packaging interests would be brought together in one holding. (Note that Mr. E.A. Thompson - President of Dominion Glass - is also now in charge of the CB packaging operations and works out of CB's head office.)

b) The steady nature of DG's business would help to smooth CB's fluctuating earnings from pulp and paper.

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* - In 1967 Dominion Glass had 2,385,000 shares outstanding. 258,920 of these were convertible preferred shares and the remainder were common shares. The preferred shares were convertible one for one into common and had one vote apiece. Thus in important respects, the two series were virtually equivalent and they normally traded at the same price. In this section of the report we will refer just to "shares" which may be common or preferred or both.

The only change in the total number of outstanding shares since 1967 has been the issue of 10,514 in part payment of the purchase of National Pressed Glass in 1970.

In April 1974, Consolidated-Bathurst made an offer to acquire all outstanding minority shares of Dominion Glass at $14 per share. When the offer expired CB held all the preferred and 95.5% of the common shares. They have taken no legal steps to force acceptance of the offer by the remaining minority shareholders.

This last transaction was criticized on two grounds:

a) The offer was less than that paid in 1967, although the earning power had approximately doubled in the interval.

b) The offer was less than the maximum price potentially payable to Power Corporation in the non-arm's length transaction of 1973.

In considering this the following points should be borne in mind:

a) The Price/Earnings ratio of a typical stock was only about one-half as great in 1974 as it was in 1967.

b) The price paid in 1974 was a premium over the market in previous months. The high and low prices from 1966-1974 are given in the table below:

TABLE VI

STOCK PRICE HIGH-LOW

Year	High	Low
1966	16¼	12
1967	14	8
1968	16 3/8	7¾
1969	24¼	16
1970	20	10
1971	16¼	9½
1972	17½	12¾
1973	14½	11¼
1974	13 7/8	10½

c) The minority shareholder received $14 cash per share immediately. Power Corporation had received only $13 immediately, with the balance due four years later and contingent upon DG's performance.

d) It has been customary to pay a premium price for a control block, on the grounds that control in itself has a value over and above the normal value of the stock. Power and Consolidated-Bathurst paid a premium over the market in 1967 when they acquired control from the public.

CONCLUSION

Since the acquisition of DG by Power Corporation of Canada and its associates there has been an increase in efficiency. A company which appeared to be stagnating, and in danger of getting into trouble, has been turned into a solid operation.

We can see no indication of any abuse of power in the history of Power Corporation of Canada's involvement with Dominion Glass Limited beyond the very conservative dividend policy, which, as we indicated on page 133, appears to us to have been justified. On the other hand, one may question how much constructive use of power is evident. Dominion Glass still appears to be losing market share to its principal competitor, although the profit performance in the period 1967-75 has been similar in the two companies. It was not until 1974, seven years after the initial acquisition of control, that earnings exceeded 10% of the price paid for the shares in 1967.

APPENDIX I

DOMINION GLASS

CONDENSED INCOME STATEMENT

YEARS ENDED
DECEMBER 31, 1975-1966

($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Revenue (Incl. Investment Income 1966 and 1965)	131.1	111.4	96.6	93.0	73.5	76.9	69.7	65.9	58.4	54.2
Operating earnings	19.1	15.9	11.3	10.6	3.8	8.6	8.4	6.1	2.1	4.8
Depreciation	7.4	7.4	6.5	4.4	4.0	2.6	2.5	2.0	1.7	1.7
Interest & Long-term Debt Discount	2.7	2.5	2.5	2.5	2.5	0.2	0.3			
Provision for Income Tax	4.0	2.5	0.9	1.8	(1.3)	3.1	3.0	2.1	0.2	1.6
Share of Assoc. Co. Earnings & Extra-ordinary Gain	(0.1)	0.3		1.1						0.1
Net Income	$ 4.9	$ 3.7	$ 1.4	$ 3.1	$(1.3)	$ 2.7	$ 2.6	$ 2.0	$ 0.2	$ 1.7
Net per share	2.18	1.65	0.54	0.84	(0.68)	1.20	1.14	0.85	0.02	0.66
Extraordinary gain				0.50						0.03
Total	2.18	1.65	0.54	1.34	(0.68)	1.20	1.14	0.85	0.02	0.69
Dividends	-				0.40	0.20			.60	.60
Price Range High-Low	13 5/8-11	13 7/8-10½	14½-11½	17½-12¾	16¼-9½	20-10	24¼-16	16 3/8-7¾	14-8	16½-12

APPENDIX II

DOMINION GLASS AND SUBSIDIARY COMPANIES

CONDENSED SOURCE AND APPLICATION OF FUNDS
($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
SOURCE OF FUNDS										
Net income	4.9	3.5	1.3	2.0	(1.3)	2.7	2.6	2.0	(a)	1.7
Depreciation	7.4	7.4	6.5	4.4	4.0	2.6	2.5	2.0		1.7
Deferred Income Taxes	0.5	0.9	0.9	1.8	(1.2)	2.5	0.9	1.4		0.9
Amortization Deferred Charges	0.2	0.2	0.4	2.2	2.1	1.1	0.8			
Sale of Fixed Assets	0.1	0.1	0.4	2.3						
Long-Terme Borrowing	0.5	0.2	0.5	0.3		24.3	3.4	1.7		
Miscellaneous	0.1	0.3					(0.3)	0.2		(0.1)
	$ 13.6	$12.6	$10.2	$12.7	$3.6	$33.2	$9.9	$7.3		$4.1
APPLICATION OF FUNDS										
Net Plant & Equipment	5.2	4.5	3.8	4.0	7.2	20.9	7.8	5.7		1.7
Equipment Rebuilds	2.7	3.0	2.9					0.9		
Invested in Assoc. & Decrease Inv. in working cap.	-	0.6	1.7			0.2				
Increase in deferred charges			0.1	1.5	1.8	3.2	2.5			
Debt Repayment	1.4				0.3	4.8				
Dividends	0.2	0.2	0.2	0.2	1.0	0.6	0.2	0.2		1.5
	$9.4	$8.3	$8.7	$5.6	$10.4	$29.7	$10.4	$6.9		$3.1
Working Capital Change	$4.2	4.3	1.4	7.1	(6.8)	3.5	(0.6)	0.4		1.0

(a) During 1967 year end was changed from September 30 December 31, and changes in accounting procedures were effected. No source and application of funds was provided for comparison purposes.

APPENDIX III

DOMINION GLASS

CONDENSED BALANCE SHEET

YEARS ENDED
DECEMBER 31, 1975-1966

($ Millions)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Current Assets	51.3	43.6	35.3	37.0	30.6	29.3	24.0	22.8	21.2	20.8
Investment in Assoc. Company	2.3	2.4	1.7							
Deferred Charges and Stock Purchase Plan Due	0.5	0.7	1.1	0.4	0.3	0.3	0.3			
Unamortized Major Equip. Rebuilds	5.2	4.9	4.5	4.6	5.3	5.5	2.6	0.9		
Depreciated Fixed Assets	47.5	47.5	47.3	48.4	49.9	46.6	27.7	22.4	18.6	17.3
	106.8	99.1	89.9	90.4	86.1	81.8	54.5	46.2	39.8	38.1
Current Liabilities	23.9	20.5	16.3	19.5	20.3	12.2	10.3	8.6	7.2	5.3
Long-Term Debt	25.8	26.6	26.1	25.6	25.3	25.6	5.1	1.7		
Deferred Income Tax	10.5	10.0	9.0	8.1	6.1	7.3	4.8	3.9	2.5	2.3
Capital										
Preferred Shares	2.3	2.3	2.3	2.4	2.4	2.4	2.5	2.6	2.6	2.6
Common Shares	4.8	4.8	4.7	4.7	4.7	4.7	4.3	4.3	4.3	4.3
Retained Earnings	39.7	34.9	31.4	30.2	27.3	29.7	27.5	25.1	23.3	23.7
	$106.8	$99.1	$89.9	$90.4	$86.1	$81.8	$54.5	$46.2	$39.8	$38.1

LAURENTIDE FINANCIAL CORPORATION LTD.

TABLE

LAURENTIDE FINANCIAL CORPORATION LTD.

DESCRIPTION OF THE COMPANY

Laurentide Financial Corporation Ltd., directly and through subsidiaries, carries on the business of an integrated sales finance and loan company throughout Canada and in certain areas of the West Indies. A subsidiary conducts a general insurance business in Canada and in certain western states in the United States.

The company operates through the following divisions:

Consumer Division

This division makes cash loans to individuals and buys retail sales contracts. It offers a wide range of purchase services through its dealer network. Plans cover automobiles, mobile homes, travel trailers, furniture, appliances, marine pleasure equipment, travel, stereos and televisions. To generate the purchase of retail contracts, the division also provides inventory financing and working capital loans to qualified dealers in the automobile and mobile home fields. A residential second mortgage program was made operational in 1973, making funds available to homeowners for their individual requirements. This division has 188 branches from coast to coast in Canada, four branches in Jamaica, and four branches in the Bahamas.

Industrial Division

The industrial division provides industry with funds to purchase industrial equipment; it finances and leases revenue-producing equipment for industries related to forestry, mining, oil exploration, construction, road building, water and sewage installations, manufacturing and projects of a special nature. A variety of plans is available through its 29 branch offices in 7 provinces across Canada. This division also offers an automobile fleet leasing service for industrial firms.

Real Estate and Mortgage Division

This division offers a complete mortgage financial service for its customers, specializing in revenue-producing properties, such as apartment blocks, office buildings, shopping centres and residential subdivisions and interim financing and subdivision loans. The division operates offices in Vancouver, Calgary, Edmonton, Toronto and Montreal.

North Continent Capital Ltd.: NORCO

NORCO provides term commercial loans and leasing to Canadian industry and business, in amounts up to several million dollars. These funds are provided for working capital, plant expansion, business acquisitions, business expansion, oil and gas well financing, and other projects of a

specialized nature. Branch offices are in Montreal, Quebec City, Toronto, Edmonton, Calgary and Vancouver. This company is owned 51% by Laurentide and 49% by BankAmerica Corporation.

Elite Insurance Company

This company operates as a specialized casualty and property insurance company. Insurance programs include automobile, motorcycle, yacht and small boat, dwelling fire, commercial fire, and marine and mobile home insurance. Business is developed principally through agents and brokers in Canada and six western states in the United States.

HISTORY OF LAURENTIDE

OPERATIONS, 1950-65

The company was incorporated in British Columbia on June 7, 1950 as Imperial Investment Corporation Ltd. Its founders were Peter Paul Saunders and Andrew E. Saxton, who remained its top managers until 1966. By 1956 it had formed a solid base in western Canada and wanted to grow faster and to become a national organization. As part of this process it wished to buy control of an existing company in Quebec, Laurentide Acceptance Corporation Ltd., but its existing sources of borrowed money were inadequate. In order to increase its acceptability to major lenders in eastern Canada, Messrs. Saunders and Saxton sold their voting shares to Power Corporation. (For an analysis of this and subsequent transactions from the viewpoint of Power Corporation, see the report on Power Corporation pages 31 and 32 .) In 1957, they acquired Laurentide Acceptance Corporation Ltd.

Growth continued to be rapid until June 1965. In 1961 the name of the parent company was changed to its present one, Laurentide Financial Corporation Ltd.

In addition to internal growth the company made a number of acquisitions which expanded rapidly after being purchased.

1. In 1957, the Baloise Fire Insurance Company of Canada, later renamed Elite Insurance Company, was purchased. It allowed the company to provide a more comprehensive finance plan to automotive customers and dealers by including insurance.

2. Mercantile Acceptance Corporation of California (subsequently renamed Laurentide Financial Corporation of California) was purchased in 1961. This operated through 72 branch offices, principally in California. Its receivables were $34 million, approximately one-third the size of the parent company before the acquisition.

3. By 1963 Laurentide had purchased the controlling interest in a Paris-based finance company with five branches in France.

4. Also in 1963 a subsidiary company was organized with local partners in the United Kingdom. By the end of 1964, it was operating five branches.

5. In June 1964 a substantial but not controlling interest was purchased in an Italian holding company engaged in financial services, insurance and real estate operations.

6. Partially owned subsidiaries were organized in the Bahamas and in Jamaica during the same period.

ATLANTIC ACCEPTANCE AND ITS AFTERMATH

Until mid-1965 the Canadian finance industry found large supplies of working capital readily and increasingly available through the North American money market and, almost without exception, the principal companies in the industry had been able to expand through the use of such funds.

In June 1965, however, the situation changed abruptly. Atlantic Acceptance Corporation defaulted on a short-term promissory note and subsequently went into bankruptcy. This revealed that purchasers of finance company notes had not investigated the credit risks adequately, as well as being lax in handling the routine paperwork. Most major participants in the money market reacted by refusing to purchase commercial paper from the other Canadian finance companies.

Following this it became clear that Laurentide had expanded too quickly and, in common with most companies in the Canadian industry, was following dangerous accounting procedures. With the rapid expansion in both Canada and other countries top management was not able to give adequate attention to all areas of operations.

Accounting procedures in the industry had varied from the very conservative practices reflected in IAC's accounts to alleged fraud in one of the defaulting companies. Most companies, including Laurentide, reported income in a way that brought a substantial portion of the expected income into profits at an early stage in the life of a finance contract. This made it easier to borrow more money and to expand rapidly, and the rapid expansion hid the dangers in the situation.

The weakest link in the accounting system was in insufficient provision for unearned income, that is, the company taking a larger share of income in the year a finance contract was written, thus leaving considerably less income for the rest of the term of the contract and exposing the company to a drastic drop in income should the next business year show a decrease. Secondly, allowance for doubtful accounts had varied with different companies, leaving several companies completely unprotected in their future earnings against past losses. Laurentide had reflected insufficient unearned income and allowance for doubtful accounts up to 1966.

As a result of the events of 1965, Laurentide's financial affairs underwent an immediate reversal. The year ended June 30, 1966, showed a loss of $9,626,719, in sharp contrast to the profit of $3,790,956 recorded in fiscal 1965. The company's retained earnings were wiped out, and a deficit of $6,874,874 would have appeared in that account at fiscal 1966 year end had it not been for the injection of funds by the parent company, Power Corporation.

In 1966 Power Corporation took vigorous action to prevent Laurentide from going into bankruptcy. It injected over $13 million additional capital. (For details see page 147.) Messrs. Saunders and Saxton resigned and Power Corporation assisted in recruiting senior staff including Mr. M.L. Goeglein as President.

Mr. Goeglein changed the accounting policies to the conservative ones that are followed today. Most of the foreign operations including the U.S., British and French subsidiaries, were sold, with Power Corporation assisting in the negotiations.

In 1966, Laurentide showed a pre-tax loss of $17.8 million dollars. The loss reflected adjustment in allowance for doubtful accounts and an increase in the reserve for unearned income. Income was now to be credited to the profit and loss statement over the term of each contract on the "Sum of the Digits" method. This is a more conservative method than the one previously used, and defers a larger part of the profits until later in the contract. In addition, no income was recorded until a payment was actually received.

In the year ended June 30, 1967, there was a further loss of $3,027,350 but this was the last year in which the company suffered losses. By the end of 1968 the reorganization of management and operations was completed, and the company was back on a profitable basis, where it has remained ever since.

In the Financial Times of July 24, 1967, under "Company Profile", Roger Croft headed an interview with Mr. Goeglein "Drastic surgery and careful dieting help Laurentide toward full recovery". In that interview Mr. Goeglein is quoted as follows:

> ...the result of the real hard look was that all known losses were charged off; profits were calculated on cash as and when received on outstanding contracts; the centralized cost centre was set up with departments required to submit month-to-month budgets signed by department heads in blood; management was reshuffled; some branch offices closed and the number of employees fell by natural attrition so that the number of accounts handled per employee went up markedly. In other words, there was a concerted effort to make everyone in the operation cost-conscious; every item of expense was scrutinized and responsibility to keep costs to the bare bones was shared right down the executive ladder.

In October 1968 Power Corporation made another and final injection of equity capital, which allowed Laurentide to start paying off the arrears of preferred dividends which had been accumulating since December 1966. The arrears were eliminated in July 1969, and dividends have been paid regularly on the preferred since then, and on the common since September 1970.

In December 1971 North Continent Capital Ltd. (51% owned by Laurentide and 49% owned by BankAmerica Corporation of San Francisco) was formed to operate in the commercial lending and industrial leasing fields in Canada.

PURCHASE OF UNION ACCEPTANCE CORPORATION

Union Acceptance Corporation Limited was a finance company with finance receivables of about $61 million in 1968, compared with about $170 million for Laurentide. Its business was similar to Laurentide's but with greater strength in Ontario, and with greater emphasis on the financing of industrial equipment. It was controlled by Banque de Paris et des Pays-Bas, with whose help it had been able to weather the problems of 1966-67. However, it was unable to sell enough short-term paper to allow it to continue expanding.

In January 1969 Laurentide Financial bought 335,081 common shares (70.7%) of Union Acceptance at $12.50 each, and 41,950 second preferred shares at $5.50 each from Banque de Paris et des Pays-Bas in an arm's-length transaction. Later in the year it offered to buy all remaining second preference and common shares at $7.00 each. Today it owns 99.6% of both issues of stock at an average cost of $9.31 each.

Union Acceptance maintains a separate legal existence, but its operations are integrated with Laurentide's. Since its purchase, the earnings per share of Union Acceptance have been as follows:

1969	$0.72
1970	0.81
1971	0.98
1972	1.33
1973	1.28
1974	0.83
1975	1.33

POWER CORPORATION INVOLVEMENT

MAJOR CAPITAL CHANGES

The initial common equity of Imperial Investment consisted of Class A and Class B common shares, which were identical in all respects except that only the Class B shares had a vote. By June 1956,

133,258 Class A and 7,940 Class B shares were outstanding. In October 1956 Power Corporation bought 7,829 (98.6%) of the Class B shares at $50 per share. The Class A shares were trading in the $10 to $12 range.

It became anomalous, as the company grew, that such a small number of shares could control the company. In April 1963 the Class A and Class B shares were both exchanged into common shares -- the first step towards the present situation in which all the common shares, and no other class, have an equal vote.

At the same time, a new class of "subordinated common shares" was created in order to allow Power Corporation to continue to exercise control, and 3,000,000 were issued to Power at their par value of $1.00 each. They had one vote each, were convertible into common shares on the basis of one for seven, and received dividends of less than one-tenth those paid to the common shares. When issued, they represented 64.2% of the voting power.

Within the next year Power Corporation sold 1,491,390 of the subordinated common shares to a private company owned by the two senior officers of Laurentide, Peter Paul Saunders and Andrew E. Saxton. These shares were subject to a voting trust agreement under which they were still voted by Power.

During the year ending June 1966, when the effects of the collapse of Atlantic Acceptance hit Laurentide, Power Corporation increased its investment. In September 1965 it purchased 82,482 shares at $12 through a rights issue, which it underwrote. During the year it also bought 76,195 common shares in the market, but sold its entire holdings of 29,832 secondary preferred shares (convertible into common on a two-for-one basis).

It injected $4 million by a medium-term subordinated note. Finally in June 1966 Power injected an additional $9 million by buying an entire new issue of 500,000 subordinated preferred shares, convertible into common on a two-for-one basis, at $18. Of the sum of $9 million, $900,000 was added to capital and the balance of $8,100,000 was added to contributed surplus; $6,874,874 was then transferred from contributed surplus to eliminate the deficit in the retained earnings account. In addition Power Corporation repurchased the 1,491,390 subordinated common shares it had sold to Messrs. Saunders and Saxton. By June 30, 1966, its voting interest was 64.3%. In fiscal 1967 the financial squeeze eased and the $4 million note was redeemed at maturity.

Because of its earlier losses and deficit position, Laurentide had become unable to pay dividends on any of its various classes of shares. Arrears of preferred dividends by September 1968 totalled $4,011,000, $1 million of this sum accruing to Power Corporation as the sole holder of the $1.80 subordinated preferred shares. For the same reasons that prevented dividends from being paid to preferred

shareholders, the payment of related sinking and purchase funds had also come to a halt. As a corollary, the company's securities, including its debt instruments, lost their character as eligible investments for certain investors, such as those governed by the Canadian and British Insurance Companies Act.

To provide funds for the cash payment of preferred shares arrears, Power Corporation again invested capital funds by the purchase of $2.7 million $1.00 par value 1969 convertible subordinated preferred shares for $27 per share; $100,000 was added to capital and the balance of $2,600,000 was added to contributed surplus. This cash injection, together with a reorganization accomplished in October 1968, was designed to rectify the deficiencies. Power agreed to convert its 500,000 subordinated preferred shares into 1,000,000 common shares, to waive the $1 million in dividend arrears accumulated to the date of such conversion, to convert into common shares the 3,000,000 subordinated common shares it held, and to convert into common shares the 100,000 1969 convertible subordinated preferred shares it had just purchased. The arrears of dividends on preferred shares were paid, and the preferred share sinking fund and purchase plans were suspended for subsequent reinstatement at an accelerated pace.

By year-end 1969, Laurentide's outstanding common shares were 3,964,256, of which Power Corporation owned 53.7%. The various steps taken had restored the company to a strong position, and it was again able to consider growth through acquisition.

By December 1975 there were 4,130,399 common shares outstanding, of which Power Corporation controls 57.9%.

MANAGEMENT FEE

Laurentide has paid Power Corporation a management fee since the latter obtained control in 1956. It is based upon the total outstanding notes receivable at the end of each month. The fee is at an annual rate of 0.1% of the notes up to a total of $50 million, thereafter 0.075% on the excess up to $75 million, thereafter 0.05% on the excess up to $100 million and 0.025% on the balance over $100 million. The fees amounted to $169,285 in 1974 and $177,352 in 1975.

The fee was really instituted in payment for Power Corporation's role in providing Laurentide with an entree to additional lenders, and for its influence in reducing the interest rate which Laurentide had to pay on its borrowings. Since the ability to borrow adequate sums of money at satisfactory interest rates is vital to a finance company there is no doubt that in the early days Laurentide benefitted from the relationship by more than the amount of the fee.

Power Corporation's own staff is small and was smaller prior to 1968. Other management advice was normally provided only on request and then by obtaining the services of outside consultants.

During the problems that arose after the collapse of Atlantic Acceptance in 1965 Power Corporation did provide substantial management services to Laurentide both directly and indirectly. It made an additional charge for these services from 1967 until September 1973.

Some questions have been raised as to whether Laurentide still benefits from the payment of this fee or whether it could borrow under the same terms even if Power Corporation were no longer the controlling shareholder. It is not a matter of great importance, as the fee is relatively small for a company of Laurentide's size. In 1975 the fee was 1.6% of the pretax profits. Elimination of the fee would have raised the earnings per share by only 2 cents, from $1.04 to $1.06.

RELATIONSHIP TO OTHER POWER CORPORATION SUBSIDIARIES

Laurentide's connections with other Power Corporation subsidiaries are conducted at arm's length on an operating basis. On December 31, 1974, its receivables from such companies were 3.0% of its outstanding receivables, as shown below in Table I.

TABLE 1

LOANS TO ASSOCIATED COMPANIES

Company	Type of Financing	Amount ($000) Outstanding
Consolidated-Bathurst Limited	Leasing of heavy mobile logging equipment	$ 20,260
Voyageur Colonial Limited	Leasing of automotive equipment	2,223,094
Voyageur (1969) Inc.	Leasing of automotive equipment	1,849,316
Kingsway Transports Limited	Leasing of highway tractors	2,163,422
Canada Steamship Lines Limited	Leasing of vessel	4,627,744
Sicotte Transport Limited	Leasing of Cranes	507,189
Voyageur Inc.	Leasing of automotive equipment	1,163,016
Canada Steamship Lines Limited	Leasing of automobiles	298,782
	TOTAL	$12,852,823

Laurentide's borrowings from companies affiliated with Power Corporation are strictly on a commercial basis and are normally small. At December 31, 1974, these companies held none of Laurentide's short-term paper, $5.0 million in unsecured long-term debt, and $2.5 in secured long-term debt.

LAURENTIDE'S POSITION IN THE INDUSTRY

Laurentide is the third-largest publicly owned finance company in Canada. Since finance companies operate in different fields, industry-wide figures are not available for all phases of their activities. The following comparisons can be made, however.

Laurentide's consumer loans at December 1974 totalled $179.6 million, or 10% of the industry total of $1.805 billion. If consumer sales contracts are included, the total would increase to $226 million, or about 7.5% of the corresponding industry figure. However, this represents only about 1.1% of total consumer debt outstanding, including that held by banks, retail dealers, credit unions, etc.

SUMMARY OF ACCOUNTING POLICIES

INCOME

Finance income is taken up on a cash collection basis. Unearned finance charges on precomputed accounts are taken into income as payments are collected. Earnings are prorated over the term of the transaction on the sum of the digits method.

INSURANCE

Insurance premiums are 100% deferred and taken into income on a straight-line basis over the life of the policy.

DELINQUENT ACCOUNTS

Consumer Loans

Any payment that is less than 50% of the contractual amount is not considered a payment.

Retail Sales Finance

Any payment that is short more than $5.00 from the contractual amount is not considered a payment.

Commercial and Industrial

At least 90% of contractual payments must be received to constitute a payment.

LOSS PROVISIONS

All known losses are charged to income immediately. Consumer loans 180 days delinquent are charged to income.

RESERVES

In addition to specific reserves the company maintains reserves consisting of 2½% of its investment in consumer loans, 1½% of its investment in retail sales finance loans and 1% of its investments in industrial and residential real estate receivables and certain lease receivables.

ASSESSMENT OF POWER

CORPORATION INVOLVEMENT*

Undoubtedly, the financial contacts and financial acceptability of Power Corporation allowed Laurentide to grow faster than it could otherwise have done from 1956 to 1965. In this regard, it is debatable whether Power Corporation should have foreseen the managerial problems resulting from the rate of expansion and taken the necessary action. It is also debatable whether Power Corporation should have insisted upon the more conservative accounting procedures that were instituted subsequently. The accounting procedures used by Laurentide were common to most Canadian finance companies and particularly to those that were growing rapidly. The dangers could have been foreseen, but at the time they were accepted as being a reasonable business risk by many organizations besides Power.

Moreover, Power Corporations's *modus operandi* was to give management freedom in normal operating decisions, and, in the case of Laurentide, it had in 1956 given Saunders and Saxton a management contract that explicitly provided for this freedom. This contract even made it difficult for Power Corporation to make the changes that were necessary in 1966.

Following the collapse of Atlantic Acceptance the managerial assistance given to Laurentide was extremely helpful and the financial support was vital. Without the injection of $4 million by a note in early 1966 and $11.7 million in equity capital in two stages in June 1966 and January 1969 Laurentide would undoubtedly have gone into bankruptcy. The effect of a collapse of Canada's third-largest finance company could have had substantial implications for the remainder of the industry, which was already in a difficult position.

Subsequent operations have been on a routine basis. Laurentide is now soundly financed and has earned an average of 12.1% on its equity during the period 1970-75. Dividends have been paid regularly on the common stock since September 1970. Power Corporation now has seven representatives out of a total of twelve on the Board, but everyday operations are in the hands of management.

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* - This assessment is written from the viewpoint of the minority shareholder in Laurentide. For an assessment from the viewpoint of Power Corporation shareholders see page 32 .

THE IMPERIAL LIFE ASSURANCE COMPANY OF CANADA

APPENDICES

THE IMPERIAL LIFE ASSURANCE COMPANY OF CANADA

INTRODUCTION

The Imperial Life Assurance Company of Canada, with its head office in Toronto, Ontario, offers a wide range of financially related services, mainly life, health, and accident insurance and annuities to individuals and groups. Its operations are conducted throughout Canada, in four states in the United States, and in Great Britain, Bahamas, Jamaica and Trinidad. The company employs over 2,000 people, of whom about 40% are in sales. Canadian employment approximates 1,155 (32% in sales). Employees in Great Britain total 718, or 35% of total employees. About 50% of the British staff is engaged in sales.

The company was incorporated on April 23, 1896, and received its license in August 1897. Authority to do business in the United States was first secured in 1926, but expansion into the United States did not begin until 1967. At the end of 1975, life insurance business in force approximated $5.6 billion, which included more than $2 billion of group life insurance and annuities. Company assets at the end of 1975 exceeded $710 million. An approximate breakdown of assets shows 80% in Canada, 13% in the United Kingdom, 3% in the United States, and 4% in the Caribbean.

The company's operations in Canada are governed by the Canadian and British Insurance Companies Act and its overall operations are under the supervision of the Department of Insurance in Ottawa. In the United Kingdom, United States and Caribbean, Imperial's business is subject to the laws governing insurance companies in the various jurisdictions in which it operates.

The business of Canadian life insurance companies is unique in that governing legislation effectively divides it into two components, participating and non-participating business. This allocation is accomplished by a strict division of the operations into two categories. Participating business essentially constitutes a cooperative enterprise as the greatest part of earnings distributed on such business must be returned to participating policyholders by means of policyholder dividends. The portion of such earnings that may be transferred to the benefit of shareholders depends on the size of the company. Non-participating business constitutes a normal profit-making enterprise. Shareholders assume the risk of losses and enjoy the benefits of profits.

MARKET SHARE

As a life insurance company in North America, the United Kingdom and the Caribbean, Imperial Life is part of an intensely competitive industry operating in a regulated environment. There are 166 active

life insurance companies in Canada, of which 50% are Canadian. Canadian incorporated life companies have, however, obtained 75% of the $220 billion of life insurance owned by Canadians.

In terms of Canadian life insurance premiums, Imperial ranked seventeenth in 1975, with about 2.5% of total premiums. Excluding medical policy assets, Imperial had obtained a 3% market share of Canadian life insurance company world-wide assets in 1974. Ranked by assets, Imperial was tenth in Canada in 1974 and fifty-ninth in relation to its United States counterparts.

ACQUISITION OF IMPERIAL LIFE BY GELCO

In March 1963, Gelco Enterprises Ltd. made an offer to the Imperial Life shareholders to purchase 45,000 shares of Imperial Life stock at $200 per share. More than this number were tendered and the offerings were prorated back to a total of 45,000 shares. In early 1964, an additional 6,245 shares were purchased at the same price. Gelco became the owner of 51,245 shares (51.2%) at a total cost of $10,249,000.

The purchase of Imperial Life was Mr. Desmarais' first major acquisition outside the bus field. Mr. Desmarais had recently gone through a long and costly strike with his bus line and, no doubt, the stability and steadiness of the life insurance industry appealed to him. In addition, the company was conservatively managed, shareholders' dividends were increasing steadily, and the life insurance industry in both Canada and the United States was enjoying very strong stock market performance and support.

There apparently were no public reports or views of the Superintendent of Insurance concerning this transaction.

MANAGEMENT AND DIRECTION

Mr. Desmarais' first involvement in Imperial Life occurred in 1963 when majority control was acquired by Gelco, of which Mr. Desmarais held effective control. Management changes at Imperial Life have been infrequent. Mr. A. Ross Poyntz was President of Imperial Life at the time of Gelco's purchase and he added the title of Chairman of the Board in 1964. Mr. Desmarais was elected a Vice-President in 1965 and appointed to the position of Chairman of the Executive Committee of the Board. In 1967, Mr. Poyntz relinquished the title of President and was succeeded by G. Kinsley Fox, formerly Executive Vice-President; Mr. Poyntz remained as Chairman and Chief Executive Officer. The only significant management changes occurred at the end of 1973. Mr. Fox, the President, became Chief Executive Officer; Mr. Poyntz remained Chairman of the Board; four Vice-Presidents who were to retire during 1974, retired simultaneously at the end of 1973 in order to minimize the disruptive effects of a series of major management changes. Through the 1965-75 period, Mr. Desmarais' position in Imperial has been that of Vice-President and Chairman of the Executive Committee of the Board.

The representation on Imperial Life's Board of Directors since 1966 by Power Corporation or by Mr. Desmarais and associates is shown below. The figures in parenthesis are the total number of board members for the year.

POWER CORPORATION REPRESENTATION

ON IMPERIAL LIFE BOARD

1966 (19)

Paul G. Desmarais - President, Trans-Canada Corporation Fund
Jean Parisien - Vice-President, Trans-Canada Corporation Fund

1967-68 (20)

Paul G. Desmarais - President, Trans-Canada Corporation Fund
Jean Parisien - Vice-President, Trans-Canada Corporation Fund
T.O. Peterson - Chairman of the Board and Chief Executive Officer The Investors Group

1969-76 (20,20,20,20,19,20,20,20)

Paul G. Desmarais - Chairman and Chief Executive Officer, Power Corporation
*Jean Parisien - Executive Vice-President, Power Corporation
**T.O. Peterson - Chairman of the Board, Investors Group
***Frank E. Case - President and Chief Executive Officer, Montreal Trust (Note: Mr. Case is a policyholders' director, not a shareholders' director.)

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* - Title changed to President of Power Corp. in 1971 and to Senior Deputy Chairman in 1974.
** - Title changed to Director, Investors Group in 1970, retired in 1973 but remained as Board member of the various Investors Mutual funds.
*** - Title changed to Chairman and Chief Executive Officer, Montreal Trust in 1972, and to Chairman in 1973.

ACQUISITION OF INVESTORS GROUP SHARES BY IMPERIAL LIFE

In November 1965, Imperial Life acquired 900,000 voting common shares or 29.8% of the then outstanding shares of Investors from the Canadian Imperial Bank of Commerce for about $16 per share or $14.4 million. A purchase larger than 30% was not allowed, as Canadian life insurance companies are not permitted to hold more than 30% of another company's shares. At the same time, Gelco and/or D.P.H. (controlled by Mr. Desmarais) purchased 100,000 shares. Apparently, The Commerce Bank may have been divesting itself of the shares of a competing financial institution in light of recently introduced Bank Act proposals. Notwithstanding the 30% limitation, Mr. Desmarais may have envisaged the beginning of an empire or a network of financial services with mutual funds and investment certificates serving as a

perfect complement to life insurance, especially if dual licencing of salesmen became fact. One may recall that mutual funds were in their heyday in the mid-1960's reflecting the strong secular growth of the stock market. Mutual funds were being sold aggressively and Investors Group was Canada's largest and best known. Investors' after-tax return on equity in 1965 was 24.3%, extraordinarily high by any standards, and this meant a potential doubling in size by Investors every four years. The price/earnings ratio was very high and the yield quite low as indicated below.

		Toronto Stock Exchange	
	Investors	Trust & Loan Index	Industrial Index
Price/Earnings Ratios	25 times	14.22 times	17.46 times
Yield	2.19%	4.41%	3.17%

In retrospect, Imperial's investment in Investors has turned out to be a poor one. The market value has declined appreciably, by about 60%, and the shares traded near the acquisition price only briefly in 1966. The dividend has been increased only twice in ten years, amounting to a 42% increment, well below other financial industry stocks. The visions of joint programs between Imperial and Investors have not materialized, and this transaction appears as an albatross on Imperial's books.

The acquisition of a maximum (30%) shareholding under the insurance law is not common, and the abnormal size of the transaction (greater than one-third of total equity holdings) apparently came into some comment from the Superintendent of Insurance, since he was not convinced that the transaction was in the best interests of Imperial Life as opposed to those of Mr. Desmarais. Nevertheless, it was a completely legal transaction, despite its unusual nature.

HIGHLIGHTS OF PERFORMANCE AND CHANGES IN PAST TEN YEARS

Consolidated earnings or earnings per share are based on the net revenue (including net realized capital gains on investment transactions) of the shareholders' account, of the non-participating life insurance business, of the health insurance business, and the appropriate portion of the net income of subsidiary companies. Not all of these amounts are available for distribution, as prudent management dictates that significant portions must be retained for the protection of the policyholders. These earnings may, and do, fluctuate widely as they are greatly influenced by the rates of mortality and morbidity and by the level of net realized capital gains. Additional fluctuation is caused by the volume of new business as the costs of acquiring new business are written off as expenses in the year incurred. As can easily be seen in the following table, shareholders' net income has been extremely erratic over the past decade.

IMPERIAL LIFE SHAREHOLDERS' NET INCOME

1965	$ 301,000	1971	2,286,000
1966	610,000	1972	1,088,000
1967	893,000	1973	1,202,000
1968	683,000	1974	895,000
1969	1,497,000	1975	1,469,000
1970	440,000		

The two years of sharp fluctuations were 1970 and 1971. In 1970, a record volume of new business, especially group life and annuities, impacted negatively as heavy acquisition costs were incurred. Health insurance experienced mandatory terminations as Medicare programs extended into more Provinces. There were heavy development costs for personnel and equipment as administrative procedures were converted to a computer system. Another cost burden resulted when the British headquarters moved to a new location outside London. Also, policy loan increases continued to inhibit investment returns and higher Canadian taxes, resulting from legislated changes in 1969, had a further impact. In 1971, earnings jumped to record levels (which have not been attained since). Mortality and morbidity claim ratios were improved, the volume of new group life and annuities business increased at less than half the 1970 level (hence, acquisition costs declined), policy loan gains abated significantly, as did development and moving expenses, and, in addition, the tax burden was reduced by a third.

The company's net return on its investments outperformed the industry in each year of the period 1965-75, as a result of the fact that over 90% of the company's assets are in Canada and Great Britain, areas of generally high interest rates. It should also be noted that because the liabilities of life insurance companies are of a long-term nature so too must be the asset structure. Hence, the portfolio is heavily weighted toward mortgages, long-term bonds, and, increasingly, real estate investments.

BRANCH EXPANSION

Branch expansion in Canada has been minimal over the past decade. Since a national network in all provinces already existed in 1965, the next ten years actually witnessed a consolidation of branches or offices with openings in certain locations and closing in others. Entry into the United States in 1967 resulted in the establishment of seven branch locations within two years. Simultaneously, expansion of British operations was in progress. Imperial increased its locations from 17 in 1965 to 30 in 1969, and has consolidated them slightly since then. Thus capital expenditures, other than for mechanization, during the past five years have been insignificant.

DIVIDEND POLICY

Shareholders' dividends have increased annually (except for 1970) since 1960, even though earnings attributable to shareholders have experienced wide fluctuations. Supporting the rising dividend payments has been the annual increase in shareholders' surplus. Because of the

erratic earnings pattern, it is very difficult to determine whether a specific dividend payout rate policy is in force. In terms of stock market yields, the dividend return per dollar of investment is the highest that it has been in the last decade. This reflects the higher dividend payment and the decline in share price from levels which generally prevailed in the past ten years.

POSITION OF MINORITY SHAREHOLDERS

Minority shareholders of Canadian life insurance companies are at a disadvantage when compared to minority shareholders in most other industries. There are very few public or stock life companies in Canada and they tend to be majority controlled or tightly held by management, friends, associates, or staff. The number of outstanding shares tends to be small, and as a result, marketability is extremely poor. Institutional investors do not follow the performance of the company and stock brokers are not motivated to spend time and effort in analysing the life insurance industry in general and Imperial Life in particular. Hence, the market price tends to be lower than it would be if the shares were widely marketable. In Imperial's most actively traded year in the last decade, 1972, the year of the two-for-one split, 18,700 shares traded with a market value of about $2 million. In 1974 and 1975, the number of shares traded barely exceeded 6,000 and the total value did not even reach $0.5 million in either year.

INVESTMENT POLICY

Investment operations are carried on within the constraints imposed by the Canadian and British Insurance Companies Act. With respect to much of a life insurance company's business, safety of the principal amount of the company's investment portfolio is the prime requirement. A life insurance company must invest the funds entrusted to it in accordance with the obligations it has to its policyholders. Imperial Life, like most other insurance companies, operates an integrated, independent, investment function. A series of mortgage offices is maintained to facilitate the search for suitable mortgages and real estate investment opportunities, while the investment of bond and stock funds is a head office function. The company maintains its own professional staff of investment personnel. The investment process and method of operation are completely independent of Power Corporation and of its other associated companies.

Since March 1970 all life insurance companies have been subject to Section 33 of the Canadian and British Insurance Companies Act, which has to do with investments in related companies. In general, the company follows the policy of avoiding investments in instruments of companies in the Power Corporation orbit. The same general principle applies with regard to the fiduciary role.

INTER-COMPANY SUPPLIES AND SERVICES

Imperial Life provides pension fund administration services to Power Corporation, Gesca Ltée, and to Canada Steamship Lines and subsidiaries. The compensation received for performing these services approximates $3,200 per annum. Since September 1968 Montreal Trust Company has acted as transfer agent for the shares of Imperial Life. Fees paid for this service are about $4,500 per annum.

THE IMPERIAL LIFE ASSURANCE COMPANY

CAPITAL STRUCTURE

I. As at December 31, 1975

As at December 31, 1975 the capital stock was comprised of the following:

Common shares of $5 par value

Authorized - 200,000 shares

Issued - 200,000 shares

II. Changes 1965 - 1975

	1965-1971	1972*-1975
Common shares outstanding	100,000	200,000

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* - Par value changed from $10 to $5 on a 2 for 1 share exchange basis effective April 17, 1972.

THE IMPERIAL LIFE INSURANCE COMPANY

REGIONAL DISTRIBUTION OF OFFICES

DECEMBER 1975

CANADA

Branch Offices (36)

Barrie, Ont.
Brandon, Man.
Calgary, Alta.
Chandler, Que.
Charlottetown, P.E.I.
Edmonton, Alta.
Halifax, N.S.
Hamilton, Ont.
Kingston, Ont.
Kitchener, Ont.
Lévis, Que.
London, Ont.
Moncton, N.B.
Montreal, Que. (4)
North Bay, Ont.
Oshawa, Ont.
Ottawa, Ont.
Penticton, B.C.
Quebec, Que.
Regina, Sask.
Rimouski, Que.
St. Catherines, Ont.
St. John's, Nfld.
Saskatoon, Sask.
Sherbrooke, Que.
Thetford Mines, Que.
Toronto, Ont. (4)
Vancouver, B.C.
Victoria, B.C.
Winnipeg, Man.

Mortgage Offices (6)

Calgary, Alta.
Kitchener, Ont.
Montreal, Que.
Quebec, Que.
Toronto, Ont.
Vancouver, B.C.

Sales Offices (20)

Kamloops, B.C.
Prince George, B.C.
Prince Albert, Sask.
Belleville, Ont.
Brantford, Ont.
Brockville, Ont.
Chatham, Ont.
Kirkland Lake, Ont.
Niagara Falls, Ont.
Peterborough, Ont.
Sarnia, Ont.
Stratford, Ont.
Sudbury, Ont.
Thunder Bay, Ont.
Welland, Ont.
Windsor, Ont.
Woodstock, Ont.
St. John, N.B.
Sydney, N.S.
Corner Brook, Nfld.

Group Insurance Offices (10)

Calgary, Alta.
Edmonton, Alta.
Montreal, Que. (2)
Quebec, Que.
Toronto, Ont.
Vancouver, B.C.
Ottawa, Ont.
Windsor, Ont.
Winnipeg, Man.

UNITED STATES

Branch Offices (8)

Cleveland, Ohio
East Lansing, Mich.
Flint, Mich.
Orange, Calif.
San Diego, Calif.
San Jose, Calif.
Southfield, Mich.
Walnut Creek, Calif.

CARIBBEAN

Branch and Sales Offices (4)

Kingston, Jamaica
Nassau, Bahamas
Port-of-Spain, Trinidad
San Fernando, Trinidad

GREAT BRITAIN

Branch Offices (30)

Birmingham
Bristol
Cardiff
Croyden
Glasgow
Hove
Kingston-on-Thames
Leeds
Leicester
Liverpool
London (12)
Manchester
Nottingham
Oxford
Plymouth
St. Albans
Sidcup
Southampton
Wembley

Group Insurance Office

London

IMPERIAL LIFE ASSURANCE COMPANY

MISCELLANEOUS INFORMATION
1965-1975

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Salaried staff in Canada	789	781	768	732	744	786	802	808	791	744	691
Agents, group sales, branch mgrs. in Cda.	366	338	334	309	294	305	294	330	353	358	348
Salaried staff in Great Britain	365	362	335	316	329	316	323	291	246	211	163
Agents, group sales, branch mgrs. in G.B.	353	364	363	339	346	364	363	317	274	274	211
Salaried staff in Caribbean	44	38	32	30	26	25	25	27	23	21	19
Agents, group sales, branch mgrs. in Carib.	64	59	60	53	44	48	55	58	44	41	37
Salaried staff in United States	21	22	20	18	17	15	13	10	6	-	-
Agents, group sales, branch mgrs. in U.S.	41	40	44	29	44	42	29	27	13	..	
Company assets ($Mil.)	714	654	621	574	537	502	483	467	447	431	408
Shareholders net income ($ Thous.)	1,469	895	1,202	1,088	2,286	440	1,497	683	893	610	301
Shareholders net income per share[2] ($)	7.34	4.47	6.01	5.44	11.43	2.20	7.49	3.42	4.47	3.05	1.50
Shareholders dividends per share[2] ($)	3.60	3.50	3.20	2.80	2.55	2.40	2.40	2.35	2.15	1.98	1.85
Dividend payout rate (%)	49	78	53	51	22	109	32	69	48	65	123
Number of shares outstanding[1] (Thous.)	200	200	200	200	100	100	100	100	100	100	100
Market prices (High-low)[2] ($)	75.00- 60.00	100.00- 55.00	132.00- 95.00	132.00- 70.00	81.00- 65.00	83.00- 62.50	119.50- 72.50	95.00- 61.50	92.50- 57.50	133.00- 75.00	195.00- 122.50
Price/earnings multiple (high-low) (x)	10.2- 8.2	22.4- 12.3	22.0- 15.8	24.3- 12.9	7.1- 5.7	37.7- 28.4	16.0- 9.7	27.8- 18.0	20.7- 12.9	43.6- 24.6	130.0- 81.7
Dividend yields (high-low) (%)	4.80- 6.00	3.50- 6.36	2.42- 3.37	2.12- 4.00	3.15- 3.92	2.89- 3.84	2.00 3.31	2.47- 3.82	2.32- 3.74	1.49- 2.64	0.95- 1.51
Number of shares traded (Thous.)	6.3	6.2	15.2	18.7	7.6	4.5	7.5	7.8	3.3	2.9	N.A.
Net return on investments (%)	7.34	7.16	6.93	6.66	6.54	6.38	6.22	6.04	6.02	5.96	5.92
Total capital, reserves, surplus ($ Mil.)	53	55	59	59	60	58	52	50	42	36	33
Insurance in force ($ Bil.)	5.6	5.0	4.3	3.8	3.3	3.1	2.8	2.6	2.4	2.2	2.0
New insurance and annuities ($ Mil.)	944	962	883	714	470	505	385	331	407	280	279
Paid or credited to policyholders and beneficiaries ($ Mil.)	115	85	84	85	77	60	56	51	51	48	46
Policyholder dividends ($ Mil.)	10.1	9.6	9.0	8.8	8.4	7.5	7.3	7.0	7.1	6.7	6.4
Total premium income	110	98	92	81	76	63	59	54	53	49	47
Ind. net return on investments (%)	N.A.	7.11	6.79	6.56	6.35	6.20	6.06	6.03	5.91	5.79	5.65

1. Effective April 15, 1972, 100,000 shares par value $10 split into 200,000 shares par value $5.
2. Based on 200,000 shares (adjusted prior to 1972).

Asset Composition (excl. segregated funds)	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Bonds	26.3	27.5	27.9	32.2	34.0	33.8	32.7	35.3	36.8	36.8	39.0
Equities	12.8	12.7	13.1	12.9	11.8	11.4	11.7	10.6	9.6	9.8	9.6
Mortgages	38.9	39.5	38.8	37.6	36.8	37.2	39.4	40.2	40.3	42.4	40.4
Real Estate	10.0	8.6	8.6	7.7	7.5	6.6	6.8	5.7	5.9	4.0	4.2
Policy loans	7.1	7.2	6.3	6.2	6.6	6.9	6.3	5.5	5.1	4.9	4.7
Cash & other	4.9	4.5	5.3	3.4	3.3	4.1	3.1	2.7	2.3	2.1	2.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

THE INVESTORS GROUP

TABLES

APPENDICES

THE INVESTORS GROUP

INTRODUCTION

The Investors Group is a financial services holding company. Through wholly and partially owned operating subsidiaries in the financial services industry it provides a wide range of services to corporations and individuals. It is a national company with marketing operations conducted across Canada through over forty regional offices, although, with its head office located in Winnipeg, Manitoba, the company has long been considered as western-based. Wholly owned subsidiaries issue and distribute investment contracts, distribute mutual fund shares, offer pension services, and act as investment managers for mutual funds and pension funds. Company employment approximated 1,375 at the end of 1975, with over 56% engaged in sales. Assets under administration by the wholly owned subsidiaries approximate $1.7 billion.

Control of Investors resides with Power Corporation through various wholly owned subsidiary companies, which own 56.5% of the outstanding voting stock. Power Corporation also owns 8.6% of the Class A (non-voting) common shares, bringing its overall interest to 34% of the equity. Investors, in turn, has a majority ownership of the common stock of the Great-West Life Assurance Company (50.1%) and of Montreal Trust Company (50.5%). (See separate sections for transaction details.)

Originally a branch operation started in 1926, Investors was incorporated in 1940 by a Special Act of the Legislature of the Province of Manitoba as Investors Syndicate of Canada Limited to take over the Canadian portion of the future business of Investors Diversified Services, Inc., of Minneapolis, Minnesota (formerly Investors Syndicate), by whom its shares were wholly owned until 1957. In September 1964, Investors Syndicate of Canada Limited was reorganized and the corporate name changed to The Investors Group.

The operations of the company and its subsidiaries are subject to the provisions of the provincial acts under which they are incorporated. The mutual funds are subject to the provincial securities acts in the provinces in which their shares are offered for sale. The two investment contract companies are, by their Special Act of Incorporation, specifically limited in their investment powers to investments permitted to companies registered under the Canadian and British Insurance Companies Act and are subject to the limitations and restrictions that apply to a company registered under that Act, including the federal self-dealing provision.

MARKET SHARE

Investors Syndicate Limited, a wholly owned subsidiary of Investors Group, is Canada's leading distributor of mutual funds. It offers eight different funds, each with its own set of objectives and services, by almost 800 Investors sales representatives across Canada. Market share

has been declining, reflecting the creation of a large number of new funds in the past decade, especially those of a fixed-income and tax-sheltered or "no-load" equity variety. There are now at least 300 different funds offered in Canada. The impact of this increased competition can be seen in Table I.

TABLE I

MUTUAL FUND ASSETS
(Millions of Dollars)

	Investors	Industry	Market Share
1965	736.0	2,051.8	35.9%
1966	760.6	2,191.8	34.7
1967	915.7	2,809.1	32.6
1968	1,074.4	3,575.6	30.0
1969	1,038.9	3,533.3	29.4
1970	960.2	3,148.9	30.5
1971	1,008.1	3,546.3	28.4
1972	1,112.0	4,046.8	27.5
1973	979.8	3,611.4	27.1
1974	750.5	2,920.9	24.2
1975	827.0	3,418.8	21.8

In terms of size, Investors' individual funds bulk large. This is owing, in part, to the age of the funds, the maintenance of a substantial sales force, and a relatively conservative approach to equity investing, which has tended to preserve capital better than many other equity funds have done. For example, as shown in the Financial Post's Survey of Funds, 1976, with data for the 1975 year end, Investors Mutual of Canada Ltd. was almost ten times the size of the next largest balanced fund (only five funds given), while the Investors Growth Fund of Canada Ltd. and Investors Retirement Mutual Fund ranked first and second in size in the common stock fund category.

The wholly owned subsidiaries Investors Syndicate and The Western Savings and Loan Association dominate the investment contract market, as only two other companies (much smaller in size) offer this specific type of investment vehicle. Market share is estimated at almost 85%. It should, however, be recognized that this product is sold in direct competition with similar, but not identical, types of contracts offered by Canadian life insurers and with guaranteed investment vehicles sold by trust companies and the federal government. Hence the market share cited above is somewhat misleading.

With regard to the mortgage and pension side of Investors' operations, while meaningful for Investors, they are relatively insignificant in relation to industry totals, with less than 2% of market share.

MANAGEMENT AND DIRECTION

Mr. Paul Desmarais' investment in Investors began indirectly through Imperial Life in 1965 and with a direct purchase by Gelco in the same year. Power Corporation's first direct investment was in 1969, with control being attained in 1970.

The representation on Investors' Board of Directors since 1966 by Power Corporation, Mr. Desmarais, or associates is shown below. The figures in parenthesis are the total number of board members for the year.

REPRESENTATION OF POWER CORPORATION

ON INVESTORS GROUP BOARD

1966 (10)

Paul G. Desmarais - President, Trans Canada Corporation Fund.

1967-1968 (10,12)

Paul G. Desmarais - President, Trans Canada Corporation Fund;
A. Ross Poyntz - Chairman & President, Imperial Life Assurance Company.

1969 (11)

Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
A. Ross Poyntz - Chairman & President, Imperial Life Assurance Company.

1970 (15)

Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
D.E. Kilgour - President, Great-West Life Assurance Company;
Paul B. Paine - Vice-President, Power Corporation;
Jean Parisien - Executive Vice-President, Power Corporation;
A. Ross Poyntz - Chairman & C.E.O., Imperial Life Assurance Co.;
William I.M. Turner, Jr. - President, Power Corporation.

1971 (16)

Paul G. Desmarais - Chairman and C.E.O., Power Corporation;
Paul B. Paine - Vice-President, Power Corporation;
Jean Parisien - President, Power Corporation;
William I.M. Turner, Jr. - President, Consolidated-Bathurst Limited;
A. Ross Poyntz - Chairman & C.E.O., Imperial Life Assurance Co.;

1972 (17)

Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
Paul B. Paine - Executive Vice-President & General Counsel, Power Corporation;
Jean Parisien - President, Power Corporation;
A. Ross Poyntz - Chairman & C.E.O., Imperial Life Assurance Co.;
J.W. Burns - President, Great-West Life Assurance Company

1973 (17)

Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
Paul B. Paine - Executive Vice-President & General Counsel, Power Corporation;
Jean Parisien - President, Power Corporation;
A. Ross Poyntz - Chairman & C.E.O., Imperial Life Assurance Co.;
J.W. Burns - President, Great-West Life Assurance Company;
William I.M. Turner, Jr. - President & C.E.O., Consolidated-Bathurst Limited.

1974 (17)

*Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
*Paul B. Paine - President & C.E.O., Montreal Trust;
**Jean Parisien - Senior Deputy Chairman, Power Corporation;
A. Ross Poyntz - Chairman, Imperial Life Assurance Company;
J.W. Burns - President & C.E.O., Great-West Life Assurance Co.;
William I.M. Turner, Jr. - President & C.E.O., Consolidated-Bathurst Limited.

1975 (17)

*Paul G. Desmarais - Chairman & C.E.O., Power Corporation;
*Paul B. Paine - President & C.E.O., Montreal Trust;
**Jean Parisien - Senior Deputy Chairman, Power Corporation;
A. Ross Poyntz - Chairman, Imperial Life Assurance Company;
*J.W. Burns - President & C.E.O., Great-West Life Assurance Co.;
William I.M. Turner, Jr., - President & C.E.O., Consolidated-Bathurst Limited.

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* - Member of the Executive Committee

** - Member of the Audit Committee

Major management changes occurred in 1966, 1967, 1969 and 1971. In 1966, Mr. T.O. Peterson, Chairman, President and Chief Executive Officer, relinquished his presidency to Mr. C.E. Atchison, formerly Executive Vice-President and General Manager, and Mr. J.N.W. Budd added the title of General Manager to his title of Vice-President. In 1967 Mr. Atchison assumed the title of Executive Officer with Mr. Peterson remaining as Chairman. In 1968, Mr. Atchison became Chief Executive Officer as well as President. In 1969, the corporate organization was restructured as was the Board of Directors. Mr. Peter D. Curry, a long-term member of the Board, became Chairman, replacing Mr. Peterson who asked to be relieved from the Chairman's post but retained his place on the Board and remained Chairman of the mutual fund companies. In June, following the Great-West Life acquisition and the direct purchase of Investors' shares by Power Corporation, five new directors were appointed to the Board. These were Mr. W.I.M. Turner, Mr. D.E. Kilgour, Mr. P.B. Paine, Mr. Jean Parisien, and Mr. Max Bell, Chairman, F.P. Publications. In December Mr. Bell

resigned and was replaced by Mr. R.H. Jones, Executive Vice-President of Investors Group. Following the purchase of a 5% interest in Investors common stock by the Bank of America in 1970, Mr. A.H. Brawner, Executive Vice-President, Bank of America, was elected to the Board. Mr. Atchison was appointed Vice-Chairman of the Board in August 1971 following his request for a reduction in the responsibilities associated with his role as President and Chief Executive Officer. During 1971, Mr. J.W. Burns and Mr. A.C. Rice were appointed to the Board. Mr. Peterson reached mandatory retirement age for Directors in 1972. His slot was taken by Mr. Turner.

Mr. Jones' presidential appointment followed from the illness of Mr. Atchison. He was a logical candidate, having been Executive Vice-President. Mr. Jones had joined Investors in 1948 as a security analyst and proceeded to more responsible positions within the department and company.

ACQUISITION OF INVESTORS BY POWER CORPORATION

In November 1965, the Imperial Life Assurance Company of Canada acquired 900,000 voting common shares, or 29.8% of the then outstanding shares of Investors. At that time Trans Canada Corporation Fund was the majority shareholder of Imperial Life, and its President, Paul Desmarais, was a Vice-President and Director of the insurance company. Mr. Desmarais and Mr. A.R. Poyntz joined the Investors Board in 1966.

It appears that Gelco and/or D.P.H. also purchased 100,000 common shares in November 1965. Perhaps this was a tag-end of a one million share block as Imperial Life could not exceed 900,000 shares in its purchase. Subsequently, in 1968, blocks of 15,000 and 13,000 shares were acquired by Gelco or D.P.H., giving them a total of 128,000 shares.* Power Corporation's investment in Investors had begun with its acquisition of Trans Canada Corporation Fund in 1968, and the initial acquisition of the voting common shares of Investors by Power Corporation directly occurred on April 29, 1969, when it purchased 1,150,200 common shares issued from the treasury for a sum of $13,802,400, or $12 per share. This purchase was part of a total issue of 3,000,000 shares and was an important part of the financing entered into by Investors to acquire its control of Great-West Life.

Subsequently, on January 20, 1970, Power Corporation purchased 1,093,478 voting common shares of Investors Group from the Royal Bank (540,374 shares) and the Canadian Imperial Bank of Commerce (553,104 shares) in exchange for equal value in Power Corporation's treasury common shares (at $11.50 each). A further 1,028,400 voting common shares were acquired from Canadian Pacific Investments on February 23, 1970, for a total consideration of $12,855,000.

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* - These shares were sold to Great-West Life in April 1969, as a part of a 550,000 share transaction that included Canadian Pacific Investments, James Richardson & Sons, Peter Curry, and the Royal and Commerce Banks.

These transactions increased Power Corporation's direct holding in the voting shares of Investors to 3,272,080 shares, or 50.3% of the total common shares outstanding, and majority control. Also in 1970, Investors issued 342,105 shares to BankAmerica Corp. In order to retain majority control, Power purchased an additional 159,700 shares in the open market at approximately $9 per share. Total holdings increased to 3,431,780 shares at a total cost of $40,668,000, or $11.85 per share. This holding now amounted to 50.2% of total voting shares outstanding. During 1973, Power Corporation increased its voting common share holdings by purchasing another 434,270 shares on the floor of the Stock Exchange to give it a total of 3,886,050, or 56.5% of the voting common shares. In addition 372,000, or 6.8% of the non-voting Class A common shares were acquired, as were 59,000, or 3.7% of the 5% convertible preferred shares. The preferred shares were converted into Class A common shares on a two-for-one basis in 1974. Thus, Class A share holdings approximated 490,000, or about 8% of the Class A shares outstanding, at the end of 1975. Combining the voting common shares with the non-voting common Class A shares gives a total of 4,356,050 shares, or about 33.7% of the common equity, at year-end 1975. Imperial Life and Great-West Life respectively hold 900,000 and 650,000 voting shares of Investors, and these account for 13.2% and 9.5% respectively of the total common shares outstanding. Therefore, the total of voting shares controlled directly and indirectly is 5,416,050, or 79.2% of outstanding shares. If the 342,105 common shares owned by Bank of America (5%), are included, the total percentage controlled is 84.2.

The additional share purchases in 1973 and 1974 illustrate Power Corporation's policy of not only holding control but also seeking greater equity participation in its subsidiaries to the benefit of Power's shareholders. Since 1974, additional shares have not been acquired, as Power has sought to use its funds in other ways.

From the viewpoint of an acquisition-minded parent company, the structure of Investors Group as a holding company with operating financial subsidiaries is very propitious. Financial intermediaries are confined in their acquisitions because of legislation, borrowing or capital constraints. The Investors Group subsidiaries are separately incorporated, with the parent or holding company apparently free of the constraints imposed on financial intermediaries or fiduciaries. Hence it has good flexibility in the type of investment it may make, as well as the capital structure needed to undertake any acquisition.

ACQUISITION OF GREAT-WEST LIFE BY INVESTORS

In April 1969, the Investors Group acquired 501,000 shares, or 50.1% of the outstanding shares, of Great-West Life Assurance Company and majority control. The process was lengthy and emotional, especially for Great-West Life, and also involved an initial offer from another party. A summary of these developments follows.

In January 1969, the Great West Saddlery Limited announced its intention of acquiring control of Great-West Life by adding to a block of shares it stated it had already purchased in the open market (194,000 shares, or 19.4% of Great-West Life's outstanding shares) through a proposed offer that was to include an exchange of Saddlery shares for those of Great-West Life ($30 cash plus six Saddlery shares for each share of Great-West Life). The officers and directors of Great-West Life indicated that they would not recommend such an offer to shareholders and, in fact, the offer was not made.

Paul Desmarais, Chairman of Power Corporation and a Director of Investors, approached Great West Saddlery and determined that they would sell their holding at cost ($140 per share). This information was conveyed to Investors and the merits of the investment were subsequently analyzed. The Investors Board approved a resolution on May 4, 1969 which

1) gave approval to Investors to purchase from Great West Saddlery 194,000 shares of Great-West Life at about $140 per share;

2) subject to the Saddlery acceptance, Investors entered into an arrangement with Power Corporation and Canadian Pacific Investments Limited whereby

    a) Investors undertook to make an offer to all shareholders of Great-West Life to purchase 307,000 shares at $140 Canadian;

    b) Power and CPI undertook to purchase from Investors all the Saddlery shares of Great-West Life purchased (194,000 shares) in the event Investors did not take up any shares pursuant to the Great-West Life offer by Investors;

    c) Power Corporation and CPI undertook to provide Investors with funds to finance the acquisition;

    d) Investors undertook to repay the funds provided by the allotment and issuance of 3,000,000 common shares of Investors at $12 per share, and the proceeds of a public offering of convertible preferred shares by Investors.

A brief chronology of events follows.

1) On March 4, 1969, Great West Saddlery accepted Investors' offer.

2) On March 7, Great-West Life's President, Mr. D.E. Kilgour, issued a press release on behalf of Great-West's Board stating that Investors' cash offer of $140 was fair.

3) On March 20, Investors made a formal offer to Great-West Life's shareholders to purchase at least 307,000 shares at $140 Canadian or $130 U.S. in cash. The offer was open until April 17, 1969.

4) Investors acquired from Saddlery the 194,000 shares on April 3 for $27,216,605.

5) Great-West Life shareholders tendered 604,000 shares under Investors' offer, and 144,334 shares at $140 Canadian and 162,666 shares at $130 U.S. were accepted on April 17.

6) On April 29, 3,000,000 voting common shares of Investors were issued at $12 net per share to Power Corporation (1,150,200), Canadian Pacific Investments (778,800), James Richardson & Sons (374,100), Canadian Imperial Bank of Commerce (324,300), Royal Bank of Canada (316,800) and Peter D. Curry (55,800).

7) On May 12, 1,600,000 Investors 5% cumulative redeemable convertible preferred shares, par value $25, were offered to Canadians.

8) On May 23, public financing (via preferred shares) closed, and the proceeds were received.

A summary of Investors' cost of acquiring 501,000 shares or 50.1% of Great-West Life capital stock is shown in Table II.

TABLE II

GREAT WEST LIFE SHARE ACQUISITION COSTS

Purchase from Saddlery - 194,000 shares at $140.29		$27,216,605
Purchase under Great-West Life public shareholder offer -		
144,334 shares at $140 Canadian	$20,206,760	
162,668 shares at $130 U.S.	22,716,868	42,923,628
Miscellaneous Costs and Expenses		687,877
TOTAL COST ($141·39/share) or		$70,838,110
Funds were provided by:		
Sale of 3 million common shares at $12 per share		$36,000,000
Sale of 1.6 million preferred shares at $25 per share	$40,000,000	
less expenses and commissions	1,475,000	38,525,000
		$74,525,000

It should be noted that Investors' acquisition resulted in the repatriation of nonresident holdings, as Great-West's foreign ownership declined from 63% at the end of 1968 to 28% at the end of June 1969.

ACQUISITION OF MONTREAL TRUST BY INVESTORS

Investors' association with Montreal Trust was initiated in 1967 and was the result of Investors' earlier experience in the trust company industry. Estate planning, like the provision of life insurance protection, plays an integral part in sound financial planning. Investors had been contemplating three alternative ways of providing life insurance related services to their clients before the Great-West Life transaction occurred. In view of their limited capital and human resources to provide full national coverage in estate planning, Investors sought to make an arrangement with an established major national trust company whereby Investors' sales representatives could offer national estate planning to their clients. Investors had wanted to retain its full pension services and its right to act as trustee for group and individual registered pension plans should an arrangement be concluded.

In 1967, Canadian Pacific Investments owned 7%, or 211,000, of the common shares of Investors and 329,500 shares, or 15%, of Montreal Trust's outstanding shares. Mr. G.J. van den Berg, a Vice-President of CPI was a director of Montreal Trust.

On April 11 of that year, Investors' Board approved an exchange whereby Investors would receive 329,500 shares of Montreal Trust from CPI for $446,620 in cash plus the issue from the treasury of 483,615 voting common shares of Investors to CPI. These transactions were completed on April 27, 1967. The transaction was valued at $6,250,000, or $18.97 per Montreal Trust share. The Investors' Board on February 14, 1968, approved the transfer of all of the shares of Investors Trust Company to Montreal Trust in exchange for 250,000 common shares of Montreal Trust subject to certain conditions. On April 30, 1968, Investors sold 100% of Investors Trust Company to Montreal Trust for $3,100,000 and accepted as payment 250,000 treasury shares of Montreal Trust. Investors now owned 579,500 common shares or 23.7%, of Montreal Trust at a total cost of about $9,373,347, or $16.17 per share. Mr. C.E. Atchison, the then President and Chief Executive Officer of Investors, was elected to Montreal Trust's Board of Directors in April 1968. Simultaneously, Investors and Montreal Trust concluded a working arrangement whereby certain services were to be provided by each for the other.

While Investors was contemplating whether to increase its ownership to over 50%, stock market trading activity of Montreal Trust increased sharply with several very large blocks being transacted. In the period 1966-70, approximately 6.6% of the outstanding shares had traded annually. During 1971-72, however, this figure approached 25%. As the price was rising, all indications seemed to suggest accumulation. It was believed that a Montreal broker had acted for a group who had accumulated 300,000 shares. Rumours had started to circulate that a possible takeover was underway.

Fearing this possible takeover, and with it the jeopardizing of its earlier agreement, and the shattering of a program of offering an almost complete financial service package to the clients of all of Power Corporation's affiliated financial companies, Investors reacted defensively. At a meeting of the Executive Committee of the Board of Investors held on September 19, 1972, a resolution authorized the purchase through a broker of not less than 605,000 common shares of Montreal Trust. This purchase was transacted on September 20, on the floor of the stock exchanges. The shares were acquired principally from institutional investors and at a premium above the prevailing market level of the previous day. A total of 721,107 shares of Montreal Trust was acquired for $17,400,000, or $24.13 per share, between September 20, 1972, and February 25, 1973. The proceeds of a $10,000,000 term bank loan were used to complete these purchases. As a result, Investors now owned 1,300,607 shares at a cost of $26,700,000, or $20.50 per share, and had obtained majority control with 50.5% of the outstanding shares of Montreal Trust.

HIGHLIGHTS OF PERFORMANCE AND CHANGES, 1965-75

Earnings from Investors' own operations peaked in 1968 and did not exceed this level until 1973 (see Table III). The main causes were the negative impact on certificate operations resulting from the sharp escalation in interest rates in 1969 and a turn down in capital market prices starting in late 1969, which impacted negatively on money management fees and the ability to market the company's various equity funds. It is interesting to note that, with the exception of 1973, income from management and distribution operations has continuously been below the 1965 level. Indeed, it is obvious from Table III that its certificate operations provide the bulk of Investors' own earnings and that the mutual fund earnings and operations are given far too much weight and influence in the minds of investors, portfolio managers, and the general public. A major part of the improvement in Investors consolidated earnings has been the dramatic gain from Great-West Life since 1970 (see Table IV). Except for 1970, the inclusion of Great-West Life on an equity basis has been a plus for the earnings total.

TABLE III

SUMMARY OF INVESTORS EARNINGS

BY MAJOR CATEGORY 1965-1975

(Thousands of Dollars and Percent)

	Investment Certificate Operations	Management Services	Trust Operations	Total Pre-Tax	% of Total Cert.	% of Total Manage.	% of Total Trust
1965	5,107	4,816	164	10,087	50.6	47.8	1.6
1966	6,049	4,407	82	10,538	57.4	41.8	0.8
1967	6,548	4,384	67	10,999	59.5	39.9	0.6
1968	8,031	4,403	84	12,518	64.1	35.2	0.7
1969	6,999	4,802	124	11,925	58.7	40.3	1.0
1970	6,287	2,744	82	9,113	69.0	30.1	0.9
1971	5,576	4,143	193	9,912	56.3	41.8	1.9
1972	6,340	4,303	236	10,879	58.3	39.6	2.2
1973	7,682	6,703	238	14,623	52.5	45.9	1.6
1974	9,492	4,228	212	13,932	68.1	30.4	1.5
1975	8,892	3,877	344	13,113	67.8	29.6	2.6

Table IV analyzes Investors' net operating income (after-tax but before preferred dividends) including the earnings of unconsolidated subsidiaries on an equity basis.

TABLE IV

SUMMARY OF INVESTORS

NET OPERATING INCOME 1968-1975

(Thousands of Dollars and Percent)

	Operating Income	Share of Great-West Life Earnings	Share of Montreal Trust Earnings	Net Operating Income	% of Total Investors	% of Total Great-West	% of Total Mtl. Trust
1968	6,388	-	-	6,388	100.0	-	-
1969	6,064	3,142	348	9,554	63.5	32.9	3.6
1970	4,595	2,925	319	7,839	58.6	37.3	4.1
1971	5,195	4,141	406	9,742	53.3	42.5	4.2
1972	6,080	5,745	584	12,409	49.0	46.3	4.7
1973	7,388	6,610	2,127	16,125	45.8	41.0	13.2
1974	6,877	7,930	1,244	16,051	42.8	49.4	7.8
1975	6,951	8,514	2,149	17,615	39.5	48.3	12.2

The most meaningful figures in Table IV are those for 1973-75, since pre-1973 Montreal Trust results are only on a dividend basis and thus not comparable. It should be noted that the Investors portion of the total has continued to decline each year. An obvious conclusion to be drawn is that the diversification program (acquisition of Great-West) appears to have been successful on the earnings side.

On a fully diluted basis (allowing for the full conversion of the preferred shares) the following earnings per share comparison is made:

TABLE V

EARNINGS PER SHARE

Year	Reported	Fully Diluted
1969	$0.76	$0.74
1970	0.48	0.51
1971	0.63	0.63
1972	0.85	0.80
1973	1.15	1.04
1974	1.14	1.08
1975	1.24	1.17

Investors Group's earnings have been held down since 1969 because of the ownership of 650,000 shares of Investors by Great-West Life (Kilgour's acquisition). The dividends received by Great-West are deducted from the net income of Great-West Life attributable to shareholders when Investors take their 50.1 per cent share of earnings for consolidation purposes. These dividends are treated as inter-company transfers, and their per share impact is presented below.

TABLE VI

DIVIDENDS RECEIVED BY GREAT-WEST LIFE

ON INVESTORS GROUP COMMON SHARES

Year	Dividends	Cents per Share
1969	$130,000	1.2
1970	260,000	2.1
1971	260,000	2.1
1972	260,000	2.1
1973	373,750	3.0
1974	243,750	2.0
1975	325,000	2.5

During the 1960's Investors Group was extremely profitable, as witnessed by the after-tax return on average shareholders' equity. It is obvious that the very rapid infusion of equity capital needed to make the Montreal Trust and Great-West Life acquisitions, coupled with stagnating earnings, has sharply curtailed Investors' return on equity, especially in the early 1970's.

TABLE VII

RETURN ON EQUITY (%)

1965	24.3%	1970	6.5%
1966	19.8	1971	7.8
1967	16.8	1972	9.7
1968	15.7	1973	12.0
1969	10.3	1974	11.4
		1975	11.9

In summary, the diversity of services and products offered through various operating subsidiaries promoted year-to-year stability in the consolidated financial results of Investors. This compares favorably with many other companies in the financial services industry whose earnings have fluctuated widely over the last five years, and especially with many other mutual fund management companies, whose earnings have trended sharply downward.

BRANCH EXPANSION

Branch expansion has been minimal over the past decade. Prior to 1965 Investors already had a network in most provinces and during the period 1965-75 it has actually witnessed a decline in regional offices (including the conversion of Western Savings and Loan offices to Investors Syndicate) with openings in certain locations and closings in others. As a result, Investors' capital expenditures have been minimal relative to total operations, being incurred predominantly for increased mechanization and computerization.

DIVIDEND POLICY

During the last half of the 1960's the company's dividend policy regarding payout was to maintain an approximate 55%-60% rate. Owing to the creation of 1,600,000 preferred shares and the lower level of earnings in 1970 and 1971, the payout rate jumped. Since 1972, the payout rate in relation to reported earnings has been in the 40% region, and this includes a $0.10 per share increase in 1973, after remaining at $0.40 per share since 1966. The 40% payout rate is misleading however, because the reported earnings include on an equity basis the earnings of the unconsolidated subsidiaries. A better ratio to use is the amount of common share dividends paid to the after-tax cash flow earnings of Investors. This is because Investors receives only the cash dividends of Great-West Life and Montreal Trust. For example, in 1975, Investors received $3,000,000 in dividends from Great-West Life, versus $8,500,000 on an equity basis, and $910,000 from Montreal Trust, versus

$2,100,000 on an equity basis. Therefore, cash earnings per share available for common share dividends in 1975 were only $0.72, versus a reported $1.24. Thus, the realistic dividend payout rate was 69.9%, and this would seem to suggest the maintaining of the $0.50 common share dividend until cash flow earnings approach $0.90 per share.

POSITION OF MINORITY SHAREHOLDERS

With Power Corporation owning 56.5% of the voting common shares and with the existence of other major shareholders--Imperial Life (13.2%), Great-West Life (9.5%), and Bank of America (5%)--the general public owns only 15.8% of the voting common shares. There appears to have been no abuse of interests of the minority shareholders other than the fact that their interest has been diluted by a series of direct transactions that have increased the number of shares without giving the minority shareholders the opportunity to maintain their relative position. Had these transactions not taken place however, Investors earnings level would be lower and much more volatile and unpredictable. With regard to marketability, the Class A shares are well traded. Since the only difference in the common shares is the voting feature, market prices tend to fluctuate in close proximity and the value of the voting common is influenced by the supply-and-demand situation of Class A shares, which are widely held by institutional investors and individuals.

> The policy of Power Corporation encourages a working relationship between parent and subsidiary company that is close and ongoing. This policy is consistent with and supported by the Boards and management personnel of the associated companies. The exercise of majority ownership is not conducted on an autocratic basis but rather on the same participative basis as is common in financial intermediaries. The sensitivity of the financial intermediary function, along with close legislative and supervisory regulation by which this industry is governed, precluded any other means of operating.*

INVESTMENT POLICY

The combined assets under administration of the Investors' wholly and partially owned subsidiaries at year end were $4.8 billion, excluding the more than $5 billion in estates, trusts, and agencies administered by Montreal Trust. These assets primarily represent monies entrusted to Investors' companies for investment management on behalf of clients, or reserves to support contractual undertakings to clients.

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* - Submission of The Investors Group to the Royal Commission on Corporate Concentration, Winnipeg, November 1975, p. 8. A similar statement was given by Mr. Robert H. Jones, President and Chief Executive Officer of The Investors Group, to the Montreal Society of Financial Analysts on March 28, 1973.

The consideration as to whether sufficient safeguards exist with respect to the use of such assets for the benefit of the financial institutions involved or for their affiliates or associates would appear pertinent to the Commission's terms of reference. In particular, this would relate specifically to whether either Power Corporation or The Investors Group is in a position to take improper advantage of, or to make improper usage of, the financial resources of subsidiary financial institutions.

Each of the principal operating companies of The Investors Group does business in industries that are highly regulated by the Federal Government, or the provinces, or both. Existing legislation with respect to investment contract issuers, mutual funds, life insurance companies, and trust companies contains investment limitations that include comprehensive quantitative and qualitative restrictions as to permitted investments. There are also extensive prohibitions as to investments or loans by the financial intermediary in persons or companies within a defined relationship with the intermediary.

The two investment contract companies, Investors Syndicate Limited and the Western Savings and Loan Association, are by their special Acts of Incorporation of the Province of Manitoba specifically limited in their investment powers to investments permitted to companies registered under the Canadian and British Insurance Companies Act, and are subject to the limitations and restrictions that apply to a company registered under the Act, including the Federal self-dealing provision (section 33).

The two trust companies within the Investors' organization are also regulated financial institutions. Both are provincially incorporated, Montreal Trust under the laws of Quebec, Investors Group Trust Co. Ltd. in Manitoba. The investment powers of each are specified in their formation documents and in the laws of each province governing trust companies. The laws of each jurisdiction contain self-dealing provisions. Both companies are also registered to carry on business in Ontario under the Ontario Loan and Trust Corporations Act, which contains a self-dealing provision along the lines of the federal provision mentioned above. This provision is applicable to extra-provincial trust companies registered in Ontario.

Investment operations are carried on within the constraints imposed by the Canadian and British Companies Act and the various provincial securities acts, and especially the self-dealing provisions. There is no influence by Investors on the investment policies or strategies of Great-West Life and Montreal Trust, whose requirements may - and often do - differ from those of Investors, nor by Power Corporation on Investors.

In addition to safeguards by the various governmental agencies, Investors' internal policy has been directed toward preventing any misunderstanding that might develop concerning the manner in which Investors discharges its fiduciary responsibilities. The mutual funds have not invested in the securities of Power Corporation or any of its affiliates since Trans Canada Corporation Fund was merged with Power Corporation, thereby giving the latter its first indirect interest in Investors. The same principle applies to Investors Group Trust Co. Ltd. since its incorporation in 1968.

The investment management operations of Investors, Great-West Life, and Montreal Trust are not integrated or co-ordinated at present. The mortgage investment operations are separate and autonomous. Similarly, the securities management operations are separate and distinct.

INTER-COMPANY SUPPLIES AND SERVICES

Dual licensing of mutual fund salesmen and life insurance agents was approved by Manitoba in March 1970 and quickly copied by the other provinces. In April 1970, Investors Syndicate Limited and Great-West Life entered into an agreement whereby qualified sales representatives of each organization would sell the other's products. Presently, about 75% of Investors' sales representatives are dual licensed compared with about 20% of Great-West's agents. This reciprocal sales arrangement has benefited both companies and their respective sales forces. Because Investors' representatives had previously advocated life insurance as a vital part of personal financial planning, they have taken greater advantage of the dual licensing feature. The relatively unattractive equity market environment has no doubt been a factor in the lower sales achieved by Great-West's agents of Investor's mutual fund products.

Because of conditions in equity markets since 1970, the addition of life insurance to Investors' product arsenal has contributed to the stability and maintenance of Investors' sales force at a time when other direct mutual fund sales organizations have either disappeared or drastically reduced operations. Great-West Life carries the group life insurance, income and major health insurance on Investors' employees. Annual revenues from this service approximated $555,000. In addition, Investors and Great-West Life share a translation service.

Investors and Montreal Trust have operated on a cooperative basis since 1968, when an agreement was entered into as a condition of the sale of Investors Trust Company to Montreal Trust. Since then Montreal Trust has provided estate planning services to Investors and is the corporate executor and trustee under resulting wills. Investors promotes the services of Montreal Trust as executor and trustee. Montreal Trust pays commissions to Investors on sales of Montreal Trust's guaranteed investment certificates by Investors' salesmen. Montreal Trust acts as a depository for mortgages and securities lodged by Investors and its subsidiaries for security of liabilities to investment certificate holders. Montreal Trust offices act as agents for Investors in lending and servicing mortgage loans. Since August 1, 1968, Montreal Trust has acted as transfer agent and registrar for Investors common and common Class A shares and since 1969 for the preferred shares. In 1974, Investors paid fees totalling $109,000 to Montreal Trust for services as transfer agent and as custodian. Montreal Trust's transfer agent fee for Great-West Life shares amounts to about $9,400 per year. Montreal Trust has been Great-West's transfer agent since April 1972.

Investors, Montreal Trust and to some extent Great-West Life compete in a number of services offered, including pension fund management, registered retirement and home ownership plans and pooled mortgages and equity fund management; however, each company concentrates on different market areas.

THE INVESTORS GROUP

CAPITAL STRUCTURE

AS AT DECEMBER 31, 1975

As at December 31, 1975 the capital stock was comprised of the following:

Authorized - 1,297,960 5% cumulative convertible preferred shares of a par value of $25 each (see note 1).
Issued and fully paid - 1,297,960 5% preferred shares.

Authorized - 20,000,000 common convertible and common Class B convertible shares in total of a par value of 5¢ each (see note 2).
Issued and fully paid - 6,786,705 common convertible shares, 55,400 common Class B convertible shares.

Authorized - 20,604,010 shares common Class A convertible non-voting shares and common Class C convertible shares in total, of a par value of 5¢ each (see note 2).
Issued and fully paid - 5,903,296 common Class A convertible shares - 183,171 common Class C convertible shares.

Note 1: In May 1969, Investors issued 1,600,000 shares of 5% cumulative redeemable convertible preferred shares, 1969 Series, with a par value of $25 per share. These shares are preferred as to capital and dividends. Fixed cumulative preferential dividends at the rate of 5% per share per annum, as and when declared by the Board of Directors, is payable quarterly.

Conversion Privilege - Each preferred share 1969 Series is convertible at the option of the holder at any time up to and including April 30, 1979, or the third business day prior to the date fixed for the redemption of such shares, whichever is earlier, into common Class A shares of the company as presently constituted on the basis of 1 2/3 common Class A shares for each preferred share.

Note 2: CAPITAL RE-ORGANIZATION

At a special general meeting of shareholders held September 16, 1975, the shareholders confirmed the resolution of the directors passed July 29, 1975 which provided for an alteration of the share capital of the company. The alteration was formally completed by the issuance of Supplementary Letters Patent under the Manitoba Companies Act dated October 1, 1975. The alteration is as follows:

i) The previously authorized and issued common shares have been reclassified as common convertible shares and are, at the option of the holder, convertible into common Class B convertible shares. Both classes of shares are voting, convertible into each other and identical in all respects subject only to special provisions for the payment of dividends.

ii) The previously authorized and issued common Class A shares have been reclassified as common Class A convertible shares and are, at the option of the holder, convertible into common Class C convertible shares. Both of these classes of shares are non-voting, convertible into each other and identical in all other respects subject only to special provisions for the payment of dividends.

iii) Previous to the alteration in capital, each preferred share, 1969 Series was convertible at the option of the holder at any time up to and including April 30, 1979, into 1 2/3 common Class A shares of the company. Now preferred shares are convertible on exactly the same basis as formerly except that such shares are now convertible into common Class A convertible shares.

This reorganization was the outcome of the 1971 income tax reform which allows that a company may pay "tax-paid" dividends out of that portion of its pre-1972 income which was still in the corporation's hands at December 31, 1971. However, the company must pay a special tax equal to 15% of the amount that would normally be paid out as taxable dividends on those shares converted before it can pay "tax-paid" dividends. Accordingly, the rate of cash dividends on the Class B and Class C shares will be 85% of the contemporary common and Class A dividends since the company will have paid the other 15% in special tax.

OUTSTANDING CAPITAL CHANGES

1965 - 1975

	Common	Common Class A	Common Class B	Common Class C	Preferred
1965	3,016,385	5,325,705			
1966					
1967	3,500,000				
1968		5,415,705			
1969	6,500,000	5,420,705			1,600,000
1970	6,842,105	5,443,205			
1971					
1972		5,450,705			
1973		5,472,557			1,599,950
1974		6,076,467			1,297,960
1975	6,786,705	5,903,296	55,400	183,171	

COMMENTS

a) In April 1967, Investors issued 483,615 common shares of Investors to Canadian Pacific Investments as part payment for 329,500 shares of Montreal Trust.

b) In April 1969, Investors issued 3,000,000 common shares to Power Corporation, Canadian Pacific Investments, James Richardson & Sons, Canadian Imperial Bank of Commerce, Royal Bank of Canada and Peter D. Curry to assist in the financing of The Great-West Life Assurance Company acquisition.

c) In 1970, 342,105 shares (about 5% of outstanding shares) were issued to BankAmerica Corporation.

d) The company has followed a practice of authorizing and issuing Class A common shares for the Employee Stock Purchase Plan. Consequently, all increases in Class A common shares outstanding (except for 1973 and 1974) during the period 1968 to 1975 have been a result of the share purchase plan as follows:

1968	90,000 shares	1972	7,500 shares
1969	5,000 shares	1973	21,752 shares
1970	22,500 shares	1974	NIL
1971	NIL	1975	10,000 shares

As at the end of December 31, 1975, 118,248 common Class A shares were reserved for the employee Stock Purchase Plan.

e) During 1973, 50 preferred shares were converted into 100 common Class A shares. In 1974, 301,990 preferred shares were converted into 603,910 Class A shares.

THE INVESTORS GROUP

REGIONAL DISTRIBUTION OF OFFICES

December, 1975

CANADA

Brandon, Man.
Calgary, Alta. (2)
Edmonton, Alta. (2)
Halifax, N.S.
Hamilton, Ont.
Kingston, Ont.
Kelowna, B.C.
Kitchener, Ont.
London, Ont.
Montreal, Que. (3)
New Westminster, B.C.
North Bay, Ont.
Ottawa, Ont.
Peterborough, Ont.
Quebec City, Que.
Regina, Sask.
St. John, N.B.
Saskatoon, Sask.
Sherbrooke, Que.
St. Catherines, Ont.
Thunder Bay, Ont.
Toronto, Ont. (3)
Vancouver, B.C. (2)
Victoria, B.C.
Windsor, Ont.
Winnipeg, Man. (3)

THE INVESTORS GROUP

MISCELLANEOUS INFORMATION

1965 - 1975

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Salaried Employees	597	583	594	570	561	588	560	562	578	559	549
Sales Representatives	777	713	724	732	768	803	910	876	896	965	910
Company Assets ($Mil.)	636	592	584	549	494	473	462	401	392	371	364
Mutual Fund Assets ($Mil.)	827	751	980	1,112	1,008	960	1,034	1,074	916	761	736
Pension Fund Assets ($Mil.)	333	282	319	318	278	236	219	197	148	111	94
Cert. Liabilities ($Thous.)	447	414	415	390	351	329	324	336	335	322	316
Operating Income[2] ($Thous.)	6,951	6,877	7,388	6,080	5,195	4,595	6,064	6,388	5,879	5,535	5,731
Net Operating Income[3] ($Thous.)	17,615	16,051	16,125	12,409	9,742	7,839	9,554	6,388	5,879	5,535	5,731
Earnings Available for Common & Class A Shares[4] ($Thous.)	15,992	14,148	14,125	10,409	7,742	5,839	8,338	6,388	5,879	5,535	5,731
Average Common & Common Class A Shares Outsdg. ($Thous.)	12,929	12,366	12,306	12,293	12,285	12,139	10,919	8,916	8,826	8,342	8,342
Earnings Per Common & Common Class A Shares ($)	1.24	1.14	1.15	0.85	0.63	0.48	0.76	0.72	0.68	0.62	0.64
Dividends Per Share ($)	0.50	0.50	0.45	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.35
Dividend Payout Rate (%)	40	44	39	47	63	83	53	56	59	65	55
Common Shares Outsdg.[5] ($Thous.)	6,787	6,842	6,842	6,842	6,842	6,842	6,500	3,500	3,500	3,016	3,016
Common Class A Shares Outsdg. ($Thous.)	5,903	6,076	5,473	5,451	5,443	5,443	5,421	5,416	5,326	5,326	5,326
5% Cumulative Preferred Shares Outsdg. ($Thous.)	1,298	1,298	1,600	1,600	1,600	1,600	1,600	-	-	-	-
Market Prices (Common) (High-Low) ($)	7.63-5.50	9.00-4.80	12.00-8.00	11.50-8.00	9.88-6.00	11.63-6.50	13.50-9.50	10.75-8.50	13.00-8.50	16.75-10.25	16.75-12.50
Market Prices (Class A) (High-Low) ($)	7.88-5.25	9.75-5.00	12.50-7.13	12.00-8.00	9.38-6.00	11.00-6.00	12.00-8.13	10.50-7.00	12.25-7.38	16.13-9.00	15.25-11.00
Market Prices (5% Preferred) (High-low) ($)	15.75-12.50	19.75-11.25	25.50-16.63	25.00-20.00	22.13-17.00	25.25-16.00	26.50-22.50				
Price/Earnings Multiple (High-Low) (x)	6.4-4.2	8.6-4.2	10.9-6.2	14.1-9.4	15.7-9.5	24.2-13.5	17.8-10.7	14.9-9.7	19.1-10.9	27.0-14.5	26.2-17.2
Dividend Yield (Common) (High-Low) (%)	6.35-9.52	5.13-10.42	3.60-6.31	3.33-5.00	4.05-6.67	3.44-6.67	2.96-4.92	3.72-5.71	3.08-5.42	2.39-4.44	2.09-3.18
Dividend Yield (Preferred) (High-Low) (%)	7.94-10.00	6.33-11.11	4.90-7.52	5.00-6.25	5.65-7.35	4.95-7.81	4.72-5.56				
Number of Shares Traded (Common (Thous.)	99	131	150	236	97	100	154	93	148	43	414
Number of Shares Traded (Class A) (Thous.)	691	444	1,168	1,741	1,162	789	1,572	1,064	1,122	843	1,275
Number of Shares Traded (Preferred) (Thous.)	125	119	312	327	268	175	148				

1 Includes investment in unconsolidated subsidiaries.

2 Earnings before inclusion of share of Great-West Life and Montreal Trust earnings.

3 Earnings after inclusion of share of Great-West Life and Montreal Trust earnings. Dividends only for Montreal Trust in 1970-72 period.

4 Net operating income minus the preferred share dividend payments.

5 At year end following capital structure change - common "B" shares outstanding 55,400; common "C" shares outstanding 183,171 (Common - 6,786,705; Class A - 5,903,296).

THE GREAT-WEST LIFE ASSURANCE COMPANY

APPENDICES

THE GREAT-WEST LIFE ASSURANCE COMPANY

INTRODUCTION

Great-West Life, with its head office in Winnipeg, Manitoba, offers a wide range of financially related services - predominantly life, accident, and health insurance, and annuities to individuals and groups. Operations are conducted through 101 marketing and 34 service offices in 10 Canadian provinces and in 33 states and the District of Columbia in the United States. The company employs almost 3,500 people, with approximately 25% in commission sales. In Canada there are about 2,500 employees (20% in sales), and in the United States about 950 (38% in sales). In 1973, U.S. marketing headquarters was established in Denver, Colorado.

The company was founded in Winnipeg by Jeffry Hall Brock and incorporated on August 28, 1891, by a Special Act of the Canadian Parliament. It commenced business in Winnipeg and western Canada on August 18, 1892. One of the prime motives for its establishment was to give western Canadians an opportunity to buy insurance from a local company and thus to invest their capital in their own rapidly growing region. Great-West Life started writing insurance in the United States in 1906. At the end of 1975, 63% of its $27.2 billion of insurance and annuities in force was in Canada, as was 42% of its $182 million in health insurance premiums. Company assets exceeded $2.3 billion at the end of 1975.

The company's operations in Canada are governed primarily by the Canadian and British Insurance Companies Act and its overall operations are under the supervision of the Department of Insurance in Ottawa. In the United States, its business is subject to the laws governing insurance companies in the various jurisdictions in which it operates. The business of Canadian life insurance companies is unique in that governing legislation effectively divides it into two component parts - participating business and non-participating business; this allocation is accomplished by a strict division of the company's operations into the two categories.

Participating business basically constitutes a cooperative enterprise. The greatest part of earnings distributed on such business must, by law, be returned to participating policyholders by means of policyholder dividends. The portion of such earnings that may be transferred to the benefit of shareholders depends on the size of the company. Non-participating business constitutes a normal profit-making enterprise. Shareholders assume the risk of losses and enjoy the benefits of profits. Potential buyers have a wide range of products and a large number of companies from which to choose. They also have a choice between participating and non-participating plans. Therefore, traditional market forces ensure that companies compete actively with each other for customers and maintain realistic pricing relationships of all products offered.

MARKET SHARE

As a life insurance company in North America, Great-West Life is part of an intensely competitive industry operating in the regulated environments of two countries. There are 166 active life insurance companies in Canada - 83 Canadian, 65 U.S., 9 British, and 9 from Continental Europe. Of the $220 billion of life insurance owned by Canadians at the end of 1975, 75% was with Canadian-incorporated companies.

In terms of business in force, Great-West Life is the second-largest Canadian life insurance company and the eighteenth-largest life insurance company doing business in the United States; in terms of assets GWL ranks fourth in Canada and twenty-third in the United States. While bulking large in terms of business in force ($27.2 billion), its market share is relatively small. For example, its $17.8 billion business in force in Canada at 1975 year-end represented only about 8% of total life insurance owned in Canada. Its $10.2 billion of U.S. business in force represents 19% of Canadian life companies' insurance in force outside Canada. Canadian premium income in 1975 of $211 million represented 6% of total life insurance premiums paid by Canadians. Its $113 million of U.S. premium income in 1975 accounted for 12% of Canadian life companies' premium income outside Canada. In terms of Canadian life insurance premium income, Great-West Life ranked fifth in 1975. Great-West Life has been the largest Canadian health insurer for a number of years.

MANAGEMENT AND DIRECTION

Investors Group's acquired control of Great-West Life in 1969, when a 50.1% interest was obtained. (See page 171 for details.) Paul Desmarais had had a major interest in Investors Group since 1965, and Power Corporation obtained outright control in 1970.

The representation on Great-West Life's Board of Directors by Power Corporation and related companies since 1966 is shown on the following page. The figures in parenthesis are the total number of Board members for the year.

Major management changes occurred in 1969, 1970 and 1971. On February 4, 1969, Mr. G.T. Richardson of Great-West Life was elected Chairman of the Board, succeeding Mr. J. Harris who retired. On June 18, 1969, Mr. C.E. Atchison, President of Investors Group, was appointed a Director, succeeding Mr. J.R. Murray who had resigned. (While no public statement was made regarding the reason for Mr. Murray's resignation, it was known that he had opposed Great-West's acquisition of Investors' shares). On September 16, 1970, Mr. Peter D. Curry, a former Vice-President of Great-West Life, and Chairman of the Investors Group, was elected Chairman of the Board, succeeding Mr. G.T. Richardson, who, because of other business commitments, felt obliged to resign as Chairman and Director. Earlier, in June 1970, Mr. Paul B. Paine, of Power Corporation, was appointed to the Board. At the December 1970 Board meeting, Mr. D.E. Kilgour

POWER CORPORATION REPRESENTATION

ON BOARD OF DIRECTORS OF GREAT-WEST LIFE

1967-69 (18,18,16)

Peter D. Curry, Chairman of the Board, Greater Winnipeg Gas Company (Also a director of Investors Group).

1970 (16)

Peter D. Curry, Chairman of the Board, the Investors Group;
Clarence E. Atchison, President, The Investors Group.

1971 (17)

Peter D. Curry, Chairman of the Board, The Investors Group;
Clarence E. Atchison, President, The Investors Group;
Paul B. Paine, Vice-President and General Counsel, Power Corporation.

1972-73 (17,16)

Peter D. Curry, Chairman of the Board, The Investors Group;
Clarence E. Atchison, Vice-Chairman of the Board, Investors Group;
Robert H. Jones, President, The Investors Group;
Paul B. Paine, Executive Vice-President and General Counsel, Power Corporation.

1974-75 (15,15)

* Peter D. Curry, President and Chief Operating Officer, Power Corporation;
** Clarence E. Atchison, Vice-Chairman of the Board, Investors Group;
* Robert H. Jones, President and Chief Executive Officer, Investors Group;
* Paul B. Paine, President and Chief Executive Officer, Montreal Trust.

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* Members of the Executive Committee
** Member of the Audit Committee

announced his intention to retire as President and Director after the forthcoming annual meeting and Mr. J.W. Burns, formerly Director, Marketing (United States) was appointed Executive Vice-President, and Mr. H.E. Harland, formerly Actuary, was appointed Vice-President and Actuary. On March 17, 1971, Mr. Burns was elected President and a Director, succeeding Mr. Kilgour. At the September Board meeting, Mr. R.H. Jones, President, The Investors Group, was appointed a Director, replacing Mr. R.C. Brown, formerly Vice-President, Marketing, who resigned to return to field management with the company.

The appointment of Mr. Burns, a career man with Great-West Life, was influenced by two main factors. First, Great-West Life had been predominantly managed by one person, Mr. Kilgour. Accordingly, the acquisition of the company by a majority shareholder (Investors Group) was a very difficult experience for

Mr. Kilgour (so much that he acquired for Great-West Life 650,000 shares of Investors) (see page 192). Rather than work for someone else, and probably not being in a proper frame of mind to lead a company, Mr. Kilgour took early retirement after 38 years of service. Second, Mr. Burns had been the Director of Marketing for U.S. operations, an area of growing importance. His U.S. involvement had also had the effect of leaving him relatively immune from internal company politics, and he was thus seen as a possible unifying force for the company.

Great-West Life's earnings recovery started in 1971 (after having declined in 1969 and 1970), reflecting, in part, an improvement in the return on investments, especially that in Place Bonaventure in Montreal. Dividends have increased annually and the payout rate has been maintained at levels more than double the rate of payout in the 1960's. The company has continued to move ahead in all aspects of its operations, and it appears that the appointment of Mr. Burns has had positive effects. In 1971, the company completed an internal reorganization. Among recent innovations has been the creation of a single, coordinated division to handle all aspects of policyholders' service; the development of a ten-year growth plan; introduction of a new financial reporting system; and the establishment of a full-time investment policy committee.

The responsibility for the management of the company's affairs rests with the Board of Directors. At Great-West Life, the Board consists of two classes of directors, namely shareholder directors elected by the shareholders, and policyholder directors elected by the participating policyholders, both classes nominated in the same manner. A policyholder director must be a policyholder of the company, and cannot be a shareholder. The primary responsibility of the policyholder directors is to ensure that no judgments or activities on the part of the management of the company inure in an extra way to the benefit of the shareholder account at the expense of the participating account. They are the special stewards of the individual policyholder's account (dividend paying policies) and ensure that those funds and the management approach to those funds is consistent with fair distribution to their benefit.

The Canadian and British Insurance Companies Act specifies that a minimum of one-third of the directors must be policyholder directors. At the end of 1975 Great-West Life had seven policyholder directors and nine shareholder directors. The Executive Committee of the Board, which meets monthly, consists of two policyholder directors and five shareholder directors. Two directors of the company are residents of the United States.

ACQUISITION OF INVESTORS
SHARES BY GREAT-WEST LIFE

Reference was made earlier to the fact that the acquisition of Great-West Life by Investors was a very difficult experience for Mr. Kilgour and the personnel of Great-West Life.

> For predominantly psychological reasons and for the on-going stability of Great-West's personnel, especially its marketing force, senior management was under extreme pressure to take some action that would help its staff preserve their honour and dignity. In an emotionally charged atmosphere the management of Great-West concluded that they should have a participation in this transaction, that it would give them a substantial psychological lift that they were a part of something new rather than being acquired. Accordingly, the Great-West Life Board of Directors authorized the purchase of 650,000 shares or 10% of the then outstanding voting common stock of Investors.*

On March 20, 1969, Great-West Life purchased 100,000 common shares on the Winnipeg Stock Exchange at a cost of $1.3 million, or $13 per share. On April 15, it purchased from D.P.H., Gelco, Canadian Pacific Investments, James Richardson & Sons, Peter Curry, Royal Bank and Commerce Bank 550,000 additional shares at an aggregate cost of $7,028,607, or $12.78 per share. Total cost of share acquisitions was $8,328,607, or $12.81 per share.

The acquisition of Investors shares was initiated by Mr. Kilgour over the objections of his investment department and of Paul Desmarais and the other members of the group that was formed to assist Investors acquire Great-West Life (Royal Bank, Canadian Imperial Bank of Commerce, Canadian Pacific Railway, Power Corporation). Mr. Kilgour had indicated that he would not agree to recommend Investors' offer to the Great-West shareholders unless Great-West owned 10% of Investors before Investors acquired control of Great-West. Great-West did indeed purchase its 650,000 Investors shares prior to being formally acquired by Investors. This transaction would be deemed as an "upstream" investment and quite contrary to the spirit of the self-dealing laws (section 33 of the Insurance Act) that came into effect in 1970. While the Insurance Act was amended in 1970 and section 33 added to the Act, it should be noted that section 33 was originally introduced as a Bill prior to the above transaction having taken place; that particular Bill died on the order paper and was subsequently reintroduced in the fall 1969 session and enacted in 1970. The substance of section 33 was also introduced into the Trust and Loan Companies Act in 1970 and the Investment Companies Act in 1971. As the Bill introducing section 33 was originally presented before this purchase, its subsequent enactment is only tenuously connected with this transaction, although it may have been hastened by it. There seems to be no public record of the view of the Superintendent of Insurance on the transaction.

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* - Paraphrased from the brief to the Royal Commission on Corporate Concentration by Mr. Clarence Elliott, Chief Investment Officer of Great-West Life at the time of the transaction.

Hindsight is a wonderful judge of investments. In retrospect the purchase of 650,000 shares of Investors Group shares by Great-West Life appears to have been a poor investment. However, who in the spring of 1969 would have forecast two economic recessions and two major stock market declines, including the worst since the depression? Moreover, who would have projected the 180-degree reversal experienced by the mutual fund industry since 1969, from heavy purchases and sharply increasing funds under management in a growth industry to serious net redemptions and declining assets? The average purchase price of $12.81 per share was near the top price of the year ($13.50) and the price of the shares has not been above $12 since, now hovering in the $7 area after being as low as $4.80 in 1974. Thus the shares have declined in value by about 50%, a far greater percentage than the overall Canadian market. Investors' dividend growth has been anemic, having risen once and by only 25% since the purchase. Viewed against the traditional yardsticks of price/earnings ratios and dividend yield the following evidence is presented:

		TORONTO STOCK EXCHANGE	
	Investors Group	Trust & Loan Company Index*	Industrial Index
Yield	3.12%	4.06%	3.18%
Price/Earnings Ratio	17.8 times	14.9 times	18.3 times

* March and April 1969 average

It can be seen that relative to its own index sub-group, Investors appeared slightly overvalued at the time of the Great-West purchases. However this valuation is relative, as many of the companies in the sub-group had not enjoyed the steady growth in earnings experienced by Investors nor did they experience an after-tax return on equity of better than 15%. When related to the overall market valuation, the shares appeared reasonably valued. From the above, one can possibly justify that Great-West's acquisition could have been based on solid fundamental grounds and was not out of line with the investment criteria and conditions of the times. The only question is the size of the acquisition and the limited marketability of the shares. This purchase represented about 10% of Great-West's common stock portfolio in 1969. However, any investment entered into on the basis of vanity or ego is usually not profitable.

HIGHLIGHTS OF PERFORMANCE
AND CHANGES IN PAST TEN YEARS

The company's operations and earnings through the 1960's progressed very positively, but started a two-year decline in 1969, the year Investors acquired control. Several factors contributed to this, some of them beyond the control of Great-West and Investors. These included: the costs of higher sales; higher expense rates on top of new and higher income taxes; poorer health and group life insurance experience; the reduction in the net rate of return on investments (contrary to industry experience), and a sharp increase in loans to policyholders. Health insurance premiums in force declined reflecting the introduction of universal medical care in Canada. Of significance to the investment return was the major change in bond and real estate holdings (see Appendix III).

Bonds were exchanged for title to Place Bonaventure, Montreal's giant commercial building complex. The building was opened in 1967, with Great-West doing the major financing, and had not reached projected income levels. The developers ran into financial problems and thus, to protect their earlier investment, Great-West was obliged to acquire title - with the attendant loss of investment revenue; (total investment in the complex exceeded $100 million). Earnings in 1969 declined to $4.50 from $4.88 per share in 1968. The basic negative trend continued into 1970 as the proportion of assets in policy loans increased, poorer individual life insurance experience and a sharp deterioration in health insurance experience, especially in the United States, impacted further. The strain of Place Bonaventure continued as the investment return declined again (which was contrary to the industry experience). Earnings per share dropped to $3.05 from $4.50. Since the low of 1970, earnings have moved sharply higher to $8.66 per share in 1975. Major steps were taken to improve the Place Bonaventure operations, which have since been in the black, and Great-West's return on investments improved sharply and in 1974 exceeded the industry's return. The company's capacity to serve its large and growing U.S. market was enhanced by the establishment of a marketing headquarters in Denver, Colorado which was opened on October 31, 1973. The continued annual improvement in earnings reflected not only the sharply higher investment return but also better expense ratios despite inflation - reduced increase in expenses, relatively favorable mortality experience, better health insurance claim experience and a meaningful improvement in the rate of retention of individual policyholders. Increased volumes and policy size gains reflect consumer recognition of the need to have insurance coverage keep pace with inflation.

In October 1974 the company announced that it was increasing its dividend scale for Canadian participating policyholders for the second time in the last three years, and the fourth time in the last ten. By increasing the dividends, Great-West has, in effect, reduced the price of its participating policies. Two reasons accounted for this decision: the substantial increase in return on policyholders' investments, and restraint in administrative costs.

BRANCH EXPANSION

Great-West Life's branch or office expansion has been minimal over the last ten years, having already been established throughout Canada and most of the United States. Some offices have been opened while others have been closed or consolidated with other offices in the same city. Thus, capital expenditures have been minor.

DIVIDEND POLICY

During the 1960's Great-West Life followed a dividend policy that finally led to a shareholder protest in the late 1960's and may have been instrumental in the acquisition attempt by Great-West Saddlery Company in early 1969. Dividend yields generally ranged below 1%, rising to the 2% range in the late 1960's. In relation to earnings, the payout rate was less than 15%, extremely low by any standard, even though the absolute level of dividends was increasing annually. In 1969, the dividend was doubled with the April 1, 1969, quarterly payment.

A 100% stock dividend was paid in July 1970, equivalent to a two-to-one stock split in the shareholders' hands. As can be seen in the Appendix, dividend payments have risen every year to a level of about one-third of earnings per share. Payments have increased by $0.50 per annum in the past two years. Dividend yields have risen sharply (5% to 6% range) reflecting the decline in market price and increased payments.

It should be noted that under recent inflationary conditions, life insurance companies have been operating under narrowing and narrow margins. However, in light of the good yields on competing instruments, they must maintain and even increase their dividend to remain an attractive investment.

POSITION OF MINORITY SHAREHOLDERS

Share marketability is relatively poor. Less than 90,000 shares have traded in each of the last three years. Of the 2 million shares outstanding, Investors Group owns 50.1% and the Great-West Life employees and agents hold about 3.5%. The balance of the shares are held by institutional investors and individuals in both Canada and the United States. About 19% of the shares are currently held outside Canada compared with about 68% at the end of 1968. It should be noted that the shares of all publicly owned Canadian life insurance companies have very poor marketability, and most are very tightly controlled by a group of friends or associates. As a result of poor marketability, a limited number of public companies, and a lack of understanding about the operations and varied accounting practices in the Canadian life insurance industry, institutional investors do not follow the industry and stock brokers are not motivated to spend time and effort in analyzing the company and industry. Periodically, the industry comes into favor (usually as a spillover of American institutional activity for their own industry) as occurred in the early 1960's and 1970's. Owing to the limited float and poor marketability (about $5 million value per year), the market price of Great-West Life tends to be lower than it would be if the shares were still widely marketable.

INVESTMENT POLICY

Investment operations are carried on within the constraints imposed by the Canadian and British Insurance Companies Act and specifically Section 33 which prohibits investments in related companies. The general policy is to avoid investment in instruments of companies in the Power Corporation orbit. Within these constraints, the investment portfolio must properly support the company's liabilities and fulfill the terms of its policyholders' contracts.

GREAT-WEST LIFE ASSURANCE COMPANY

CAPITAL STRUCTURE

1) As at December 31, 1975

As at December 31, 1975, the capital stock was comprised of the following:

Common shares of $1 par value
Authorized - 2,000,000 shares
Issued and fully paid - 2,000,000 shares

2) Changes 1965-1975

Common shares	*1965-1969	**1970-1975
Outstanding	1,000,000	2,000,000

* In June, 1965 the par value was changed from $10 per share to $1 per share on a 10-for-1 share exchange basis.

** By letters patent dated May 28, 1970, authorized capital was increased to $2,000,000 by the creation of 1,000,000 new shares at $1 par value. Subsequently, an increase of the outstanding shares was made effective through a share-for-share stock dividend payment on July 1, 1970, to shareholders of record June 15, 1970.

GREAT-WEST LIFE ASSURANCE COMPANY

REGIONAL DISTRIBUTION OF OFFICES

DECEMBER 1975

I. MARKETING OFFICES (93)

Canada (46)

Vancouver, B.C. (2)
Burnaby, B.C.
Prince George, B.C.
Victoria, B.C.
Kelowna, B.C.
Calgary, Alta.
Edmonton, Alta. (3)
Regina, Sask.
Saskatoon, Sask.
Winnipeg, Man. (5)
Brandon, Man.
Hamilton, Ont. (3)
Kingston, Ont.
Kitchener, Ont.
London, Ont.
Mississauga, Ont.
Ottawa, Ont. (3)
Peterborough, Ont.
Toronto, Ont. (3)
Windsor, Ont.
Montreal, Que. (6)
Quebec, Que.
Trois-Rivières, Que.
Saint John, N.B.
Halifax, N.S. (2)
St. John's, Nfld.
Charlottetown, P.E.I.

United States (47)

Phoeniz, Ariz.
Los Angeles, Calif.
Fresno, Calif.
San Francisco, Calif.
San Jose, Calif.
Santa Ana, Calif.
Denver, Col. (2)
Hartford, Conn. (2)
Atlanta, Ga.
Chicago, Ill. (3)
Peoria, Ill. (2)
Rockford, Ill.
Indianapolis, Ind.
Baltimore, Md.
Boston, Mass.
Detroit, Mich. (2)
Lansing, Mich.
Grand Rapids, Mich. (2)
Minneapolis, Minn.
Kansas City, Mo.
St. Louis, Mo.
East Orange, N.J. (2)
Fargo, N.D.
Cincinnati, Ohio (2)
Cleveland, Ohio
Columbus, Ohio (2)
Tulsa, Okla.
Portland, Ore (2)
Philadelphia, Pa.
Dallas, Texas (2)
Houston, Texas
Austin, Texas
Seattle, Wash.
Milwaukee, Wisc.

II. POLICYHOLDER SERVICE OFFICES (15) (Incl. those located at marketing offices)

Canada (4)	United States (11)
Vancouver, B.C.	Los Angeles, Calif.
Winnipeg, Man.	Chicago, Ill.
Toronto, Ont.	Detroit, Mich.
Montreal, Que.	Grand Rapids, Mich.
	Minneapolis, Minn.
	St. Louis, Mo.
	Columbus, Ohio
	Philadelphia, Pa.
	Dallas, Texas
	Seattle, Wash.
	Denver, Col.

III. BENEFIT PAYMENTS OFFICES (19) (Incl. those located at marketing offices)

Canada (5)	United States (14)
Vancouver, B.C.	Los Angeles, Calif.
Winnipeg, Man.	San Francisco, Calif.
Toronto, Ont.	Chicago, Ill.
Montreal, Que.	Peoria, Ill.
Sydney, N.S.	Boston, Mass.
	Detroit, Mich.
	Minneapolis, Minn.
	Columbus, Ohio
	Portland, Ore.
	Philadelphia, Pa.
	Dallas, Texas
	St. Louis, Mo.
	Denver, Col.
	Seattle, Wash.

IV. PROPERTY INVESTMENT OFFICES (6) (Incl. those located at marketing offices)

Canada (6)	United States
Vancouver, B.C.	The company is represented by mortgage correspondents in its major operational regions in the United States.
Calgary, Alta.	
Edmonton, Alta.	
Winnipeg, Man.	
Toronto, Ont.	
Montreal, Que.	

GREAT-WEST LIFE ASSURANCE COMPANY

MISCELLANEOUS INFORMATION
1965-1975

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Salaried staff in Canada	2,008	1,870	1,764	1,737	1,814	1,894	1,980	1,852	1,818	1,752	1,654
Commissioned sales staff in Canada	474	447	550	510	492	484	554	555	538	511	483
Salaried staff in United States	588	520	477	456	456	467	465	404	369	347	357
Commission sales staff in United States	365	382	449	413	412	409	380	338	337	345	369
Company assets ($ Mil.)	2,349	2,106	1,934	1,778	1,634	1,525	1,454	1,387	1,310	1,222	1,146
Shareholders net income ($ Thous.)	17,320	16,072	13,567	11,728	8,526	6,098	9,002	9,763	7,660	6,300	5,700
Shareholders net income per share[1] ($)	8.66	8.03	6.78	5.86	4.26	3.05	4.50	4.88	3.83	3.15	2.85
Shareholders dividends/share[2,1] ($)	3.00	2.50	2.00	1.60	1.40	1.35	1.20	0.60	0.50	0.44	0.40
Dividend payout rate (%)	35	31	29	27	33	44	27	12	13	14	14
Number of shares outstanding (Thous.)	2,000	2,000	2,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000	1,000
Market Prices (High-low) ($)	66.00- 49.25	68.50- 42.00	83.00- 50.50	77.00- 44.25	47.50- 37.00	67.50- 36.50	74.50- 39.50	40.00- 22.75	34.25- 22.50	45.13- 25.00	61.25- 40.75
Price/earnings multiple (high-low) (x)	7.6- 5.7	8.5- 5.2	12.2- 7.4	13.1- 7.6	11.2- 8.7	22.1- 12.0	16.6- 8.8	8.2- 4.7	8.9- 5.9	14.3- 7.9	21.5- 14.3
Dividend yields (high-low) %))	4.55- 6.09	3.65- 5.95	2.41- 3.96	2.08- 3.62	2.95- 3.78	2.00- 3.70	1.61- 3.04	1.50- 2.64	1.46- 2.22	0.98- 1.76	0.65- 0.98
Number of shares traded (Thous.)	85	71	87	174	127	172	268	143	69	32	N.A.
Net return on investments (%)	7.53	7.24	6.75	6.34	6.03	5.81	5.94	6.05	5.92	5.83	5.73
Total capital, contingency reserves & surplus ($ Mil.)	166	159	152	143	136	132	131	127	117	107	98
Insurance & annuities in force ($ Bil.)	27.2	22.7	19.1	16.3	14.0	12.9	11.7	10.3	9.3	8.3	7.6
Health insurance premiums in force ($ Mil.)	181	143	119	100	82	66	6 3	60	60	57	50
New insurance and annuities ($ Bil.)	4.2	3.5	2.8	2.3	1.8	1.4	1.6	1.3	1.0	0.9	0.9
Paid or credited to policyholders and benef. ($ Mil.)	519	425	381	340	288	267	233	214	202	193	178
Policyholder dividends ($ Mil.)	26	24	21	20	18	17	16	17	16	15	14
Total premium income ($ Mil.)	489	425	375	322	274	261	229	211	199	190	176
Industry net return on world-wide investments ($Mil)	7.34	7.11	6.79	6.56	6.35	6.20	6.06	6.03	5.91	5.79	5.65

1. Based on 2 million shares (adjusted prior to 1970).
2. Excludes $1.00 per share ($1 million) stock dividend on 1 million common shares of $1 par value issued July 1970).

ASSET COMPOSITION (excl. segregated funds)

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Bonds	30.4	30.6	31.5	32.3	32.5	33.2	32.6	37.3	37.5	37.2	35.6
Equities	8.9	7.9	7.3	7.0	6.8	5.9	7.3	6.2	6.1	5.4	5.1
Mortgages	41.7	41.5	42.1	41.6	40.7	40.2	41.2	41.9	42.2	43.8	45.4
Real Estate	8.1	7.8	8.3	8.9	9.0	9.2	9.3	5.2	5.5	5.8	6.1
Policy Loans	7.6	7.8	7.3	7.1	7.3	7.3	6.6	5.5	5.0	4.9	4.3
Cash & Other	3.3	4.4	3.5	3.1	3.7	4.2	3.0	3.9	3.7	2.9	3.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

MONTREAL TRUST COMPANY

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MONTREAL TRUST COMPANY

INTRODUCTION

The Montreal Trust Company, with its head office in Montreal, is a full-service trust company offering a wide range of financially related services to corporations and individuals. It has 27 full-service branches and 48 real estate offices (including those located at branch or savings offices) across Canada. Overseas offices are situated in the Bahamas and Bermuda.

The company was incorporated by a special act of the Quebec Legislature in 1889 as Montreal Safe Deposit Company and the name finally changed to the present title in 1909.

Montreal Trust is Canada's second largest trust company (after the Royal Trust Company) in terms of assets under administration. In terms of company and guaranteed trust funds (which are reflected in balance sheet totals) it ranked seventh at the end of 1974 (it should be noted that in the trust industry, balance sheet totals can be misleading as an indication of size).

The companies comprised under the term "the trust industry" form a heterogeneous group. Indeed, the units within the industry vary so widely and the reporting procedures differ so appreciably that either generalizations about them or direct comparisons are often not meaningful. Many trust companies operate in only one province or provide only limited services. The regulation of trust companies varies, depending upon the Act (federal or provincial) under which they are incorporated. In addition to conforming to their own acts of incorporation, they must satisfy the regulatory authorities of the provinces in which they are licensed to do business.

There are marked differences in the types of business that the various companies stress--a reflection from their early history. Some companies began as the local building societies and even today devote the major part of their effort to a savings and mortgage-loan type of business. Montreal Trust started as a safe-deposit company, expanding from there to provide an increasing number of personal and corporate services, only in relatively recent years accepting savings deposits. Even among the larger companies there are differences of emphasis: some are more attracted to the financial intermediary type of business (consumer or retail type) such as savings, investment funds, certificates of deposit, real estate sales, mortgage lending and consumer loans; others, like Montreal Trust, while providing all of the above services, are also heavily involved in corporate fiduciary activities, in estate planning, as pension fund trustees, as investment managers and as mortgage agents for large lenders in the commercial field and in multi-unit residential projects.

The financial intermediary side of trust company operations are extremely sensitive to changes in interest rates. With almost 75% of their assets invested in mortgages, which are of a longer maturity than the corresponding liability, rising short-term interest rates sharply reduce

interest rate spreads and, of course, profitability. Because of Montreal Trust's problems in the mid-1960's, it has a disproportionately high amount of fixed-rate, relatively low yield, very long-term assets in its portfolio. Thus, Montreal Trust's earnings power is strongly influenced by the magnitude and direction of interest rate changes, positively when declining and vice versa.

MARKET SHARE

Assets under administration were approximately $6 billion at year end 1975, with estates, trust, and agencies accounting for about $5.5 billion. Fees and commissions, excluding real estate, account for 25% of total revenue whereas they comprise about 10% of the total industry average. Montreal Trust's market share in both the fiduciary and intermediary side has been declining as shown:

TABLE I

MARKET SHARE/ASSETS

	Estates, Trust Agencies ($Billion)	Market Share	Guaranteed Trust & Company Funds ($Million)	Market Share
1965	3.1	24.7%	384.6	11.2%
1966	3.4	25.3	415.0	10.6
1967	3.6	21.2	414.2	9.6
1968	3.9	20.9	450.1	9.2
1969	4.2	19.8	495.6	8.7
1970	4.5	19.5	509.7	7.7
1971	4.7	19.0	545.3	7.2
1972	5.0	18.1	593.2	6.9
1973	5.3	17.9	627.4	5.9
1974	5.3	17.5	696.3	5.5
1975	5.5	16.6	767.7	5.2

Prime reasons for the decline include increasing competition and new entrants, the shift in evaluating Estate, Trust and Agency assets to the market value in 1967 by the Royal Trust (overstating industry totals), the lack of branch openings by Montreal Trust, concern over adequate capital levels, the sharp impact on profitability of the imbalance of asset/liability maturities and yields, and the general lack of young, qualified and aggressive middle-management personnel.

Market share comparisons can be made for fees and commissions and real estate commissions during the period 1970-75. See the following table.

TABLE II

MARKET SHARE - FEES & COMMISSIONS

Year	*Fees and Commissions	Market Share	**Fees and Commissions	Market Share	Real Estate Comm. Revenue	Market Share	Real Estate Comm. Expense	Market Share
1970	$20,329	16.9%	N.A.	N.A.	N.A.	N.A.	$1,377	10.8%
1971	21,959	15.3	N.A.	N.A.	N.A.	N.A.	2,257	9.6
1972	23,722	13.6	$18,774	16.1%	$ 4,948	8.5%	3,137	8.5
1973	27,898	12.5	20,380	16.6	7,518	7.5	4,918	7.8
1974	32,337	11.8	22,413	16.3	9,924	7.2	6,497	7.3
1975	34,986	11.1	23,803	15.3	11,183	7.0	7,145	6.5

* - Includes real estate
** - Excludes real estate

It should be noted that 1975 real estate commission revenues placed Montreal Trust in fourth spot in the industry behind Royal Trust, United Trust and Canada Permanent. At the annual meeting of March 1974, the President stated the following: "In the area of corporate services, income from bond trusteeship and stock transfer, Montreal Trust is the highest in the industry. Montreal Trust ranked second in the industry in corporate pension fees and in fees for mortgage servicing for others".

MANAGEMENT AND DIRECTION

Investors Group's first investment in Montreal Trust was made in 1967, and working control was obtained in 1968, with majority control being attained in early 1973.

Mr. Desmarais' investment in Investors began directly through Gelco in 1965 and indirectly through Imperial Life, also in 1965. Power Corporation's first direct investment was in 1969, with control being attained in 1970.

Since 1966 Power Corporation and some of its affiliates have been on Montreal Trust's Board of Directors. (See below, the figures in parenthesis are the total number of board members for the year.)

POWER CORPORATION REPRESENTATION

ON MONTREAL TRUST'S BOARD

1966-68 (42,41,44)

Paul G. Desmarais, President, Trans-Canada Corp. Fund - since 1962;
Peter N. Thomson, Chairman, Power Corporation of Canada.

1969 (43)

Clarence E. Atchison, President & Chief Executive Officer, The Investors Group;
Paul Desmarais, Chairman, Power Corporation;
Peter N. Thomson, Deputy Chairman, Power Corporation.

1970-1 (35)

Clarence E. Atchison, President & Chief Executive Officer, The Investors Group;
Paul Desmarais, Chairman, Power Corporation.

1972 (31)

C. Atchison, Vice-Chairman, The Investors Group;
Paul Desmarais, Chairman & Chief Executive Officer, Power Corporation;
Paul B. Paine, Executive Vice-President, Power Corporation.

1973-74 (32)

C. Atchison, Vice-Chairman, Investors Group;
*Peter D. Curry, Chairman of the Board, Investors Group;
Paul Desmarais, Chairman and Chief Executive Officer, Power Corporation;
Robert H. Jones, President, The Investors Group;
*Paul B. Paine, Executive Vice-President, Power Corporation.

1975 (31)

C. Atchison, Vice-Chairman, Investors Group;
*Peter Curry, President & Chief Operating Officer, Power Corporation;
Paul Desmarais, Chairman and Chief Executive Officer, Power Corporation;
Myrwil L. Goeglein, Chairman, Laurentide Financial Corp.;
**Robert Jones, President and Chief Executive Officer, Investors Group;
*Paul Paine, President & Chief Executive Officer, Montreal Trust;

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* - Members of the Executive Committee
** - Members of the Audit Committee

Major management changes occurred in 1967, 1972, and 1973. In 1967 Mr. O.B. Thornton, Chairman of the Board, died, and Mr. A.S. Cobbett, Executive Vice-President and General Manager, succeeded him. Mr. D.E. Kerlin, President, resigned for personal reasons, and Mr. Frank E. Case was appointed a Director and elected President and Chief Executive Officer. Other management appointments were also effected at this time. Mr. Case had formerly been General Manager at the Royal Bank of Canada. His investment background and the fact that he was approaching the age of 60 (Royal Bank retirement age) made him an excellent candidate to replace Mr. Kerlin, who was ill. In January 1972 Mr. Cobbett resigned as Board Chairman. Mr. Case was elected Chairman and continued as Chief Executive Officer. Mr. Gordon Hodgson, Executive Vice-President was elected President and Chief Operating Officer.

In May 1973, Paul Paine, Executive Vice-President of Power Corporation and a member of the Executive Committee of Montreal Trust's Board, was elected President and Chief Executive Officer. Frank Case was re-elected Chairman and Gordon Hodgson became Vice-Chairman. Mr. Paine's election was necessitated by the terminal illness of Mr. Hodgson (who died in February 1974), and by Mr. Case's approach to retirement age. At the annual meeting in April 1975, Mr. Paine also assumed the title of Chairman, succeeding Mr. Case, who has been retained as a consultant.

Mr. Paine appears to be well qualified to head a major trust company. His educational background and lengthy legal experience, along with financial exposure from directorships with Laurentide Finance, Investors Group, and Great-West Life all helped to provide a good base.

Effect of Power Corporation Interest

As related below, the major problems of Montreal Trust stemmed from slipshod management prior to 1967. The volatility of short-term interest rates compounded the difficulties encountered. Investors Group's initial investment was made in 1967, and a subsequent interest was acquired in 1968. Power Corporation attained control of Investors in 1970. Only in 1973 did Investors gain majority control of Montreal Trust. Thus Investors and Power were not in the picture when Montreal Trust encountered its major difficulties. By the time Investors had gained enough shares to place a representative on Montreal Trust's Board, the major problems had been identified and the working out of these situations had become merely a matter of time. It is debatable whether Mr. Desmarais could have acted earlier to strengthen the management. Although he had been a director since 1962, he did not represent a large block of stock until 1967-68. The experience of Power Corporation with Consolidated-Bathurst in 1968-70 shows that even the largest shareholder cannot always dominate a Board of Directors. Because of the extreme volatility in interest rates since 1973, the profit figures do not reflect the management change. Some of the basic problems still remain, but on a reduced scale. These would include: the imbalance between asset/liability maturities and yields: inadequate branch expansion; a heavy emphasis on estates, trusts, and agencies (with generally unremunerative fees and commissions); inadequate public investor interest.

HIGHLIGHTS OF PERFORMANCE AND CHANGES, 1964-75

In the mid-1960s, Montreal Trust got into difficulty which affected all later moves. One of Montreal Trust's main functions is that of mortgage agent for large lenders in the commercial and multi-unit residential fields. This entails the acquisition of mortgages for sale to third parties. In the 1964-66 period prior to Expo '67 the Metropolitan Montreal region was enveloped in a construction boom of record magnitude. Montreal Trust, as a leader in its field, made substantial commitments of longer-term fixed return mortgages for subsequent sale to clients. These assets are traditionally classified as short-term because of their resale nature and are, therefore, financed by short-term liabilities. Unfortunately, Montreal Trust's controls

were inadequate and they acquired more mortgages than they had contractual sales agreements. As well, interest rate levels started to rise. Thus, they were caught with what were short-term assets now becoming long-term fixed return assets and financed by short-term borrowings at ever rising interest rates. Thus, the mortgage portfolio had a longer average term and the deposit base shorter maturities than is the industry practice. To make matters worse, overbuilding resulted in a surplus of rental accommodations, which ultimately led to "foreclosures" appearing in the 1968 balance sheet.

The negative impact can readily be seen in Appendix II, where the guaranteed account spreads and industry intermediary spreads are presented. Earnings have been dominated by changes in interest rates in the Canadian economy. Almost all of the changes in earnings can be attributed to the changes in net profit on the guaranteed trust accounts.

A policy of directly matching 5-year mortgage assets with 5-year deposit liabilities was initiated in 1971 in order to stabilize and lessen the asset/liability maturity imbalance. This policy remains in force.

In 1973, Canadian interest rates started to move sharply higher, the chartered banks prime lending rate increased from 6% in April 1973 to a peak of 11.5% in the summer of 1974. Because of Montreal Trust's asset/liability maturity imbalance, earnings declined sharply from a $2.08 annual rate per share in the first quarter of 1973 to a $0.16 annual rate in the third quarter of 1974. Since then interest rates have declined appreciably, and profitability has increased significantly.

While it is too early to judge the results of any policy changes implemented with Mr. Paine's appointment as President in 1973, an important accomplishment has been to provide leadership and to institute proper financial reporting controls and long-term planning. Prior to his presidency, the company produced only quarterly statements and had no formal budget procedure. Both are now produced monthly. One of Mr. Paine's early tasks was a corporate restructuring to improve efficiency and communications and to allow for more aggressive marketing.

Since 1973, the company's marketing efforts have become more innovative. Whereas general industry practice is for fixed interest payment dates on five-year investment certificates, the Montreal Trust in 1974 started to offer a variety of options, which have broadened their appeal. In 1975 Montreal Trust started offering mortgages with one-year renewable term, a practice followed by only two other trust companies. For several years now, the Montreal Trust has paid a higher interest rate on savings deposits to senior citizens, a practice that is now being copied by banks and some trust companies.

BRANCH EXPANSION

Montreal Trust has lagged badly in the expansion of full-service branches. This has largely been because of concern about adequate levels of capital, a general lack of qualified personnel, and measured growth to try to reduce the emphasis on purchased funds (which tend to be short-term).

On the other hand, the company has expanded vigorously during the past few years in the opening of real-estate sales offices and the hiring of real-estate salesmen. For example, the commission sales staff increased from 191 at the end of 1970 to 584 at the end of 1975. Since 1970, almost all trust companies have expanded heavily into the real estate sales field.

The regional distribution of Montreal Trust's branch offices is shown in Table III.

TABLE III

MONTREAL TRUST COMPANY

REGIONAL DISTRIBUTION OF BRANCHES AND REAL ESTATE OFFICES

Branches (27)	Real Estate Offices (48) (incl. those located at branch or savings offices)
St. John's, Nfld.	St. John's, Nfld.
Charlottetown, P.E.I.	Halifax, N.S.
Halifax, N.S.	St. John, N.B.
Truro, N.S.	Quebec, Que. (3)
St. John, N.B.	Sherbrooke, Que.
Quebec, Que.	Montreal, Que. (11)
Montreal, Que. (2)	Brockville, Ont.
Brockville, Ont.	Ottawa, Ont.
Ottawa, Ont.	Toronto, Ont. (5)
Toronto, Ont.	Hamilton, Ont.
Hamilton, Ont.	London, Ont.
Kitchener, Ont.	Sudbury, Ont.
London, Ont.	Burlington, Ont.
Sudbury, Ont.	Windsor, Ont.
Windsor, Ont.	Winnipeg, Man.
Winnipeg, Man.	Regina, Sask.
Regina, Sask.	Saskatoon, Sask.
Saskatoon, Sask.	Calgary, Alta. (3)
Calgary, Alta.	Edmonton, Alta. (4)
Edmonton, Alta. (2)	Vancouver, B.C. (5)
Vancouver, B.C. (2)	Victoria, B.C. (2)
Victoria, B.C.	Kelowna, B.C.
Kelowna, B.C.	

Overseas (2)

Hamilton, Bermuda
Nassau, Bahamas

ACQUISITION OF MINORITY POSITION IN MONTREAL TRUST BY THE BANK OF AMERICA

In late 1973, the Bank of America, the largest bank in the United States, completed its acquisition of Montreal Trust shares by purchasing around 400,000 shares from the public on the floor of the Stock Exchange. They now hold 520,000 shares, slightly in excess of 20% of Montreal Trust's shares outstanding. Previously they had held about 5% of the shares outstanding. In 1975 two officers of the Bank of America were elected to Montreal Trust's Board with one member also elected to the Executive Committee. It should be noted that the Bank of America has held a share interest in Investors Group for several years and is a 49% partner with Laurentide in North Continental Capital Ltd. As well, the Bank of America is one of Montreal Trust's partners in the Pacific International Trust Company in the New Hebrides, formed in 1972.

DIVIDEND POLICY

Through 1968 Montreal Trust followed a policy of declaring dividend extras to complement its regular payment. In 1969, the extra was eliminated. In 1970, the quarterly dividend was reduced from 15¢ to 10¢ for the fourth quarter, reflecting the deteriorating trend in earnings and in order to maintain capital reserves. Through the late 1960's the company maintained a very high payout ratio (64%-90%). The quarterly dividend of 15¢ was paid in December 1971 as earnings soared to a record $1.50 per share in 1971. With trust companies allowed to increase their borrowing base from 15 times to 20 times unimpaired capital, and with earnings headed for record levels in 1972, the company raised its quarterly dividend to 20¢ early in 1972. This new rate held until early 1975, when a reduction again reflected the sharp decline in 1974's earnings (hence a high payout rate) and the need to conserve capital in order to expand the base for future growth. In late 1975, a 10¢ per share dividend extra was declared as 1975 results improved dramatically over 1974 levels. It should be noted that there are three main sources of improving a trust company's capital position: (1) retained earnings resulting from higher profits; (2) issuance of new shares, common or preferred; (3) reduction in dividends paid. With profits and stock prices declining in 1974, the Board of Directors chose the third method. The company has now established a quarterly rate (15¢) that they feel reflects the underlying minimum earnings level and will declare extras in line with changing earnings levels.

POSITION OF MINORITY SHAREHOLDERS

Over 70% of the outstanding shares are held by Investors Group and the Bank of America and the balance (756,000 or slightly less than 30%) is held by approximately 1,550 shareholders. Share marketability has become limited. Only 77,000 shares traded in both 1974 and 1975 compared with double that figure in the 1967-70 period. Trading activity in 1971-73 averaged 11 times the 1975 volume, reflecting greater public interest in 1971 and 1972 and the Investors and Bank of America purchases in 1972 and 1973. As a result of the poor marketability (about $1 million value per year),

institutional investors do not generally follow the performance of the company, and stock brokers are not motivated to spend time and effort in analyzing it. Accordingly, the market price tends to be lower than it would be if the shares were still widely marketable.

INVESTMENT POLICY

Section 157 of the Ontario Loan and Trust Corporations Act of 1970 clearly defines that trust and loan companies cannot make investments in controlled or associated companies (in this case, Power Corporation and all of its subsidiaries). With regard to the fiduciary side (pension funds and other noncorporate areas of money management), the operating principle has been adopted, generally to avoid investment in instruments of companies in the Power Corporation orbit, that Montreal Trust explain its relationship and will purchase or sell a security only if instructed in writing by the client.

MONTREAL TRUST COMPANY

CAPITAL STRUCTURE AND CHANGES

IN CAPITAL STRUCTURE, 1965-75

CAPITAL STRUCTURE, DECEMBER 31, 1975

As at December 31, 1975, the capital stock comprised:

5,000,000 shares authorized Common Shares of $1 par value, of which 2,576,675 shares had been issued.*

* Options have been granted to certain employees to purchase shares of the company at prices ranging from $11.25 to $18.00 per share. In 1975 no options were exercised and there were 21,575 shares under option at December 31, 1975.

CHANGES IN CAPITAL STRUCTURE, 1965-75

	1965	1966	1967	1968	1969
Common Shares Outstanding	2,189,300	2,190,900	2,191,750	2,441,850*	2,445,450

	1970	1971	1972	1973-5
Common Shares Outstanding	2,445,650	2,495,450	2,543,300	2,576,675

NOTES: *In 1968 Montreal Trust issued 250,000 of its shares to acquire all the issued and outstanding shares of Investors Trust Company from Investors Group. The value placed on this transaction was $3.1 million.

GENERAL NOTE: Until 1971 the company followed the practice of granting options to certain employees to purchase shares of Montreal Trust at specified prices. Consequently, all increases in shares outstanding (other than the 250,000 issued to Investors Group) during the period 1965 to 1975 have been a result of share purchase options being exercised as follows:

1966	1,600 shares	1971	49,800 shares
1967	850	1972	47,850
1968	100	1973	33,375
1969	3,600	1974-5	NIL
1970	200		

As at the end of December 31, 1975 there were 21,375 shares under option.

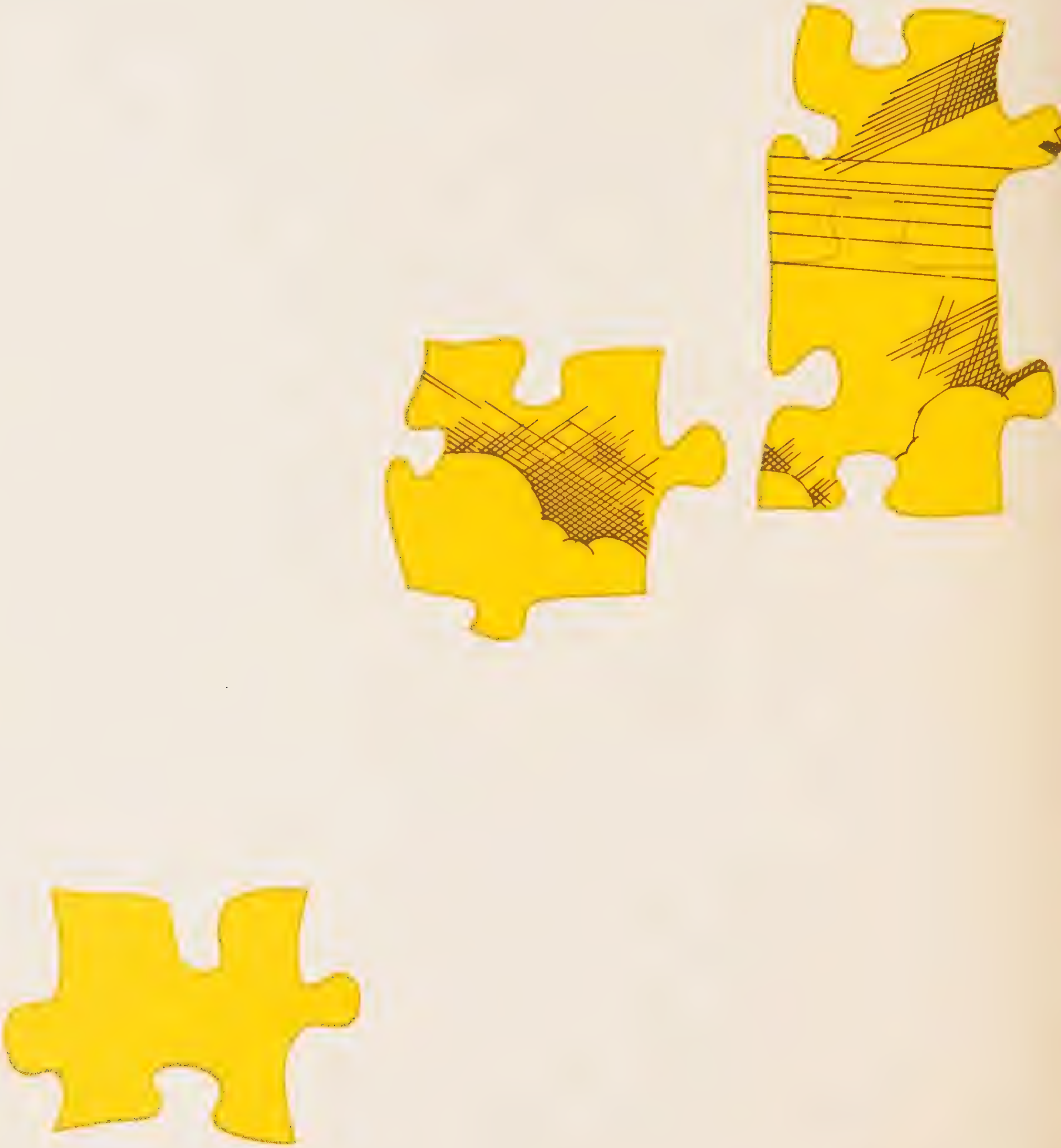
APPENDIX II

MONTREAL TRUST COMPANY

MISCELLANEOUS INFORMATION
1965-1975

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Salaried staff in Canada	1,574	1,583	1,655	1,604	1,579	1,616	1,716	1,651	1,600	1,591	1,697
Commissioned sales staff in Canada	584	491	367	275	245	191	N.A.	N.A.	N.A.	N.A.	N.A.
Salaried staff out of Canada	-	3	3	2	2	-	-	-	-	-	-
Company & guaranteed assets ($ Mil.)	767.7	696.3	627.4	593.2	545.3	509.7	495.6	450.1	414.2	415.0	384.6
Estates, trust, agencies under admin.($ bil)	N.A.	5.1	5.3	5.0	4.7	4.5	4.2	3.9	3.6	3.4	3.1
Net operating income ($ Thous.)	4,257	2,464	4,200	4,574	3,671	1,620	1,869	1,556	2,045	2,121	2,112
Net operating income/share[1] ($)	1.65	0.96	1.64	1.82	1.50	0.66	0.76	0.67	0.93	0.97	0.97
Dividends per share ($)	0.70	0.80	0.80	0.80	0.70	0.55	0.60	0.60	0.65	0.62	0.50
Dividend payout rate[2] (%)	42	83	49	44	47	83	79	90	70	64	52
Number of shares outstanding (Thous.)	2,577	2,577	2,577	2,543	2,495	2,446	2,445	2,442	2,192	2,191	2,189
Market prices (high-low)($)	15.50- 10.75	18.00- 9.00	23.00- 16.50	24.25- 17.25	19.50- 9.00	13.00- 8.50	14.50- 10.75	15.00- 10.13	17.50- 10.50	23.50- 13.37	27.00- 19.63
Price/earnings multiple (high-low)	9.4- 6.5	18.8- 9.4	14.0- 10.1	13.3- 9.5	13.0- 6.0	19.7- 12.9	19.1- 14.1	22.4- 15.1	18.8- 11.3	24.2- 13.8	27.8- 20.2
Dividend yields (high-low)(%)	4.5- 6.5	4.4- 8.9	3.5- 4.8	3.3- 4.6	3.6- 7.8	4.2- 6.5	4.1- 5.6	4.0- 5.9	3.7- 6.2	2.6- 4.6	1.9- 2.5
Number of shares traded (Thous.)	77	77	793	1,161	614	181	158	202	169	68	N.A.
Shareholders' equity[3] per share ($)	16.29	15.27	15.01	14.09	12.68	12.06	11.07	10.84	10.24	9.84	9.56
Net return on average equity[4] (%)	10.5	6.3	11.3	13.5	11.9	5.7	7.6	7.5	9.0	9.5	10.0
Net spread on guaranteed account[4] (%)	0.86	0.26	1.01	1.30	1.24	0.28	0.30	0.47	1.00	1.11	1.30
After tax return on assets[4] (%)	0.58	0.37	0.69	0.80	0.70	0.32	0.46	0.45	0.50	0.53	0.62
Trust industry financial spreads (%)	N.A.	0.99	1.44	1.56	1.44	0.97	0.95	1.13	1.34	N.A.	N.A.
Trust industry after tax return on assets (%)	N.A.	0.41	0.66	0.73	0.66	0.44	0.47	0.45	0.52	N.A.	N.A.
Trust industry after tax return on equity (%)	N.A.	7.93	11.40	11.48	10.38	6.53	6.39	5.74	6.32	N.A.	N.A.

1. On old accounting basis for 1970 - 0.62, 1969 - 0.83, 1968 - 0.75, 1967 - 0.90, 1966 - 0.93, 1965 - 0.93.
2. On old accounting basis for 1970 - 89%, 1969 - 72%, 1968 - 80%, 1967 - 72%, 1966 - 67%, 1965 - 54%.
3 On old accounting basis 1970 would be 10.52, 1965-69 figures reflect old accounting.
4. 1970 and earlier figures reflect old accounting.



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